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ABSTRACT

The purpose of this analysis is to provide decision makers with a careful comparison of alternate regulatory approaches and requirements for federal day care programs. The proposed day care regulations and this analysis cover about one-fifth of federal funding for day care and an even smaller segment of the total day care market. Proposed regulations will apply to day care subsidized under various titles of the Social Security Act -- Title XX, Title IV-B, and Title IV-A (WIN) -- and under several Titles of the Elementary and Secondary Education Act. Privately funded day care is not covered unless 10% or more of the children enrolled are subsidized by one of the covered programs. Direct government (federal, state, and local) spending for the programs covered by the proposed regulations is estimated at about 500-600 million dollars per year. The average number of children served in centers covered by the proposed regulations was estimated by the National Day Care Study to be 400,000. In-home care is not directly affected by these regulations, and this analysis does not cover that portion of the day care market. A major portion of the analysis reports costs and benefits of alternative provider requirements. Implications for state agency and federal enforcement are discussed. Other issues and considerations are explored. The final section of the analysis briefly indicates the methodology employed. (RH)

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OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20201

DRAFT

REGULATORY ANALYSIS

PROPOSED NEW DAY CARE REQUIREMENTS

Department of Health, Education, and Welfare
June, 1979

This analysis should be read in conjunction with the preamble to the proposed regulations, which provides greater detail on the alternatives presented, explains many of the terms used, and presents background on day care requirements. This draft does not contain all of the details of calculations and supporting materials used by the Department. Requests for copies of the draft or explanation of specific items can be addressed to the Office of the Assistant Secretary for Planning and Evaluation, Department of Health, Education, and Welfare, 200 Independence Avenue, S.W., Washington, D. C. 20201, Attn: Bill Prosser (202) 245-2240

COMMENTS ARE WELCOME ON ALL NUMBERS AND CONCLUSIONS IN THIS DRAFT, WHICH WILL BE REVISED AT THE TIME OF FINAL RULE MAKING

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I HIGHLIGHTS

The proposed regulations apply directly to two modes of care—day care centers and family day care homes—financed through the Social Security Act and HEW education programs. They also apply to the state agencies which administer social services and purchase child care. They affect, indirectly, other sources of services for these children, including the Medicaid program. The regulations do not cover most privately purchased day care, some Federally funded care, or in-home care.

The proposed regulations cover many aspects of day care, including training of caregiver staff, grouping requirements, nutrition, health, and State enforcement. Each of these aspects involves distinct alternatives, and creates distinct costs and benefits, which are analyzed separately.

The most important cost and benefit impacts of the proposed regulations are presented below by contrasting full enforcement of the proposals to the present costs of a partially enforced 1968 FIDCR, and to a rigidly interpreted and fully enforced 1968 FIDCR. The proposed regulation contains various low and high cost options, and the comparisons assume, for simplicity of presentation, that the Department might choose all of the options in each category, as a group. The final regulations will probably include a mixture of high, low, and other options considered during the public comment period.

Cost estimates are in 1977 dollars, and assume full implementation, which will not occur before fiscal year 1982.

Overall Conclusions

- The proposed regulations are likely to result in costs which are about the same as at present (low options) to an increase of about

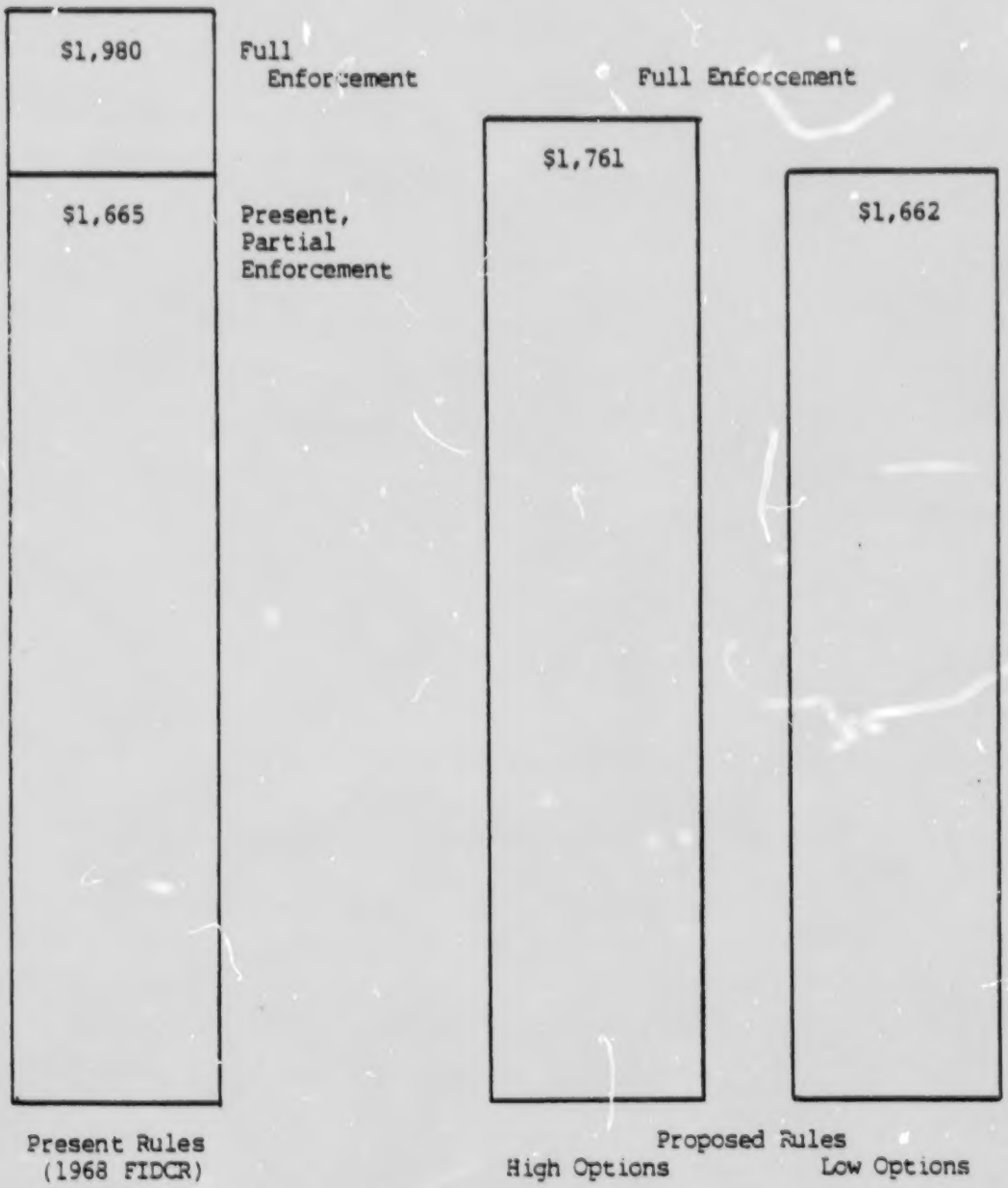
$95 million (high options) in fiscal year 1982. The increases under the high options, and the absence of cost reductions under the low options, occur because of the assumption that all requirements will be enforced more rigorously. However, the proposed regulations are from two to three hundred million dollars less costly than the 1968 FIDCR, if they were rigidly interpreted and fully enforced (see figure 1).

- Most of the cost impact of the high options will not fall directly on day care provider budgets, but on other sources of health, training, and social services financing. Under the low options, provider costs are significantly reduced. The biggest single increase to other budgets is for health costs, about $35 million under both the high and low options. Much of the remaining increase will be offset by reductions in other social services, since it will fall within a fixed source of funds, the $2.9 billion (FY 1979 ceiling) title XX appropriation.

- Effects of the proposed regulations on children will be beneficial as compared to current practice, due primarily to the positive effects of caregiver training, to the absence of adverse effects from relaxing child-staff ratios, and to the provision of needed health services. The higher cost options are expected to have greater beneficial impacts than the lower cost options, and the full set of higher cost options would have more beneficial child development impact than the 1968 FIDCR (at lower cost). All options have positive or neutral impacts on other dimensions of benefits,

Figure 1. Cost Impact of Proposed Day Care Regulations

(1977 dollars in millions)



including parent choice, supply, caregiver income, caregiver employment prospects, administerability, and integration of children.

Day Care Centers

- The current cost base is about $800 million annually, for 400,000 average child enrollment. If the 1968 FIDCR were strictly enforced, the base would be over $1 billion annually.

- The less strict low option group composition requirement would provide a level of care comparable to or slightly better than average current practice in covered centers. The stricter high option would substantially reduce group sizes for all ages from current practice (and from the 1968 FIDCR) and hence would increase child development over current practice in most centers. Under both options, changes in child-staff ratios creates a potential for significant cost reduction, ranging from $50 up to $100 million annually below current practice (and even more below the 1968 FIDCR). Centers will also gain flexibility in assigning both staff and children. However, many centers are likely to maintain current practice (HEW does not plan to impose penalties for over-compliance) or to improve wage rates or increase other services, and actual cost reduction due to less strict ratios is expected to be in the range of $2 million annually (high option) to $72 million annually (low option).

- Total cost of current training is about $15 to $20 million (mostly State funded, not in center budgets). The projected cost increase

is about $5-10 million annually, due primarily to expected enforcement of the new requirement. The 1968 FIDCR would have been more expensive, if enforced.

- Most children now receive needed health examinations and services from other sources, notably EPSDT, Medicaid, Community Health Centers, and private fee physicians. The health services cost for these children (virtually none in center budgets) is now about $150 million. Enforcement of the proposed requirements is expected to increase costs about $20-$25 million for services to identify and treat health problems of children currently eligible for, but not receiving, needed services. The proposal is about equal in cost to an enforced, 1968 FIDCR.

- Social services requirements do not require actual delivery of services by centers. No cost increases are expected under one option, but the option requiring assistance to parents in securing needed services (mostly for health services) will cost an increased $5-$10 million annually. Data limitations make it impossible to estimate any extra costs to social services and welfare systems which requirements may generate (except for health services, given above). These costs could, however, be significant.

- For nutrition, full enforcement of the proposed requirement (which is the same as in the 1968 FIDCR) might add $5 to $10 million to the $100 million base for meals and snacks, concentrated in the small percent of centers which do not now provide adequate meals. In addition, the proposed option of allowing parents to request that centers provide

breakfast to their children would cost perhaps $5 to $10 million additional in the one-third of centers which do not now provide breakfast.

- For all other requirements, center cost increases or decreases are expected to be minor on a national basis. However, some providers may continue to face cost problems in complying with State and local facility and safety codes. These codes can, in a few cases, require expensive, one-time structural changes.

- The overall effect of the proposed requirements on center budgets is potentially significant, with a net decrease of about $60-$70 million if all the lower cost options are chosen. If all higher cost options are chosen, the national increase to center budgets will be about $15-$20 million (exclusive of health and other costs increases not in provider budgets).

Family Day Care

- The current family day care cost base is about $500 million annually for an average of about 150,000 subsidized and fee children and 100,000 children of caregivers. Only about half of the total cost is reimbursed. The remainder is, in effect, donated by caregivers and parents. The 1968 FIDCR, if enforced, would have cost about $100 million more than the current cost base.

- The proposed training requirement will increase costs by $6 to $12 million (over an existing base of about $3 million), depending on the option chosen. This is primarily an enforcement effect. For

these higher costs, significantly higher benefits will be obtained. Increases generated by the 1968 FIDCR would have been far higher.

- Health costs would increase by about $15 million. This increase is paid by other public and private health systems, not by day care providers.

- Nutrition costs in family care will rise about $5 million if the low option standards are enforced, and an additional $5 million under the option allowing parents to request breakfast from these providers.

- Other cost increases and decreases are minor for family day care. Grouping requirements would not change significantly from either present practice or the 1968 FIDCR. Social services follow-up requirements are not proposed (this is the major difference between proposed center and family day care requirements).

- A special problem arises because current State reimbursement rates do not cover the full costs of providing regulated family care, where perhaps one-third of "economic" costs are not reimbursed. Although the proposed regulations do not directly address this problem, training and other requirements generating increased attention to this sector may affect current reimbursement practices.

- Finally, a small minority of family day care providers will be unable to meet enforced physical facilities and other State-imposed requirements, depending entirely on what standards States set and enforce.

- Total cost increases to family day care provider budgets are small under both sets of options. Most cost increases will be felt in State agency training budgets and health program budgets.

State and Federal Administration for Both Center and Family Care

- The current cost base for State administration is unknown, but is probably about $100 million annually, exclusive of training costs.

- Many states can implement and enforce these regulations with little or no cost increase. However, in 10-15 States spending for technical assistance and monitoring, particularly for family day care, is quite limited. The proposed regulation will increase costs by about $5-$10 million annually, primarily in these States.

- Federal enforcement costs, including monitoring of States, may grow from less than $250,000 at present to about $2 million annually, for systematic enforcement.

Uncertain Effects

- A major uncertainty in estimating costs and benefits of these new regulations is the degree to which HEW and States will enforce the requirements, and whether adjustments in reimbursement rates will be made to compensate for the cost of meeting enforced requirements—this will be heavily dependent on State legislatures and their appropriation decisions.

- In drafting these proposed regulations great effort was made to reduce ambiguity in the language and to eliminate unenforceable requirements,

both major problems in the 1966 FIDCR. However, some degree of uncertainty in interpretation or enforceability remains in the requirements areas of training, health, and social services, and cost (and benefit) estimates in those areas are correspondingly uncertain.

- Data on existing practices, and their costs, are of uneven quality. For example, the number of children now receiving breakfast is unknown. As a consequence, predicting cost changes is difficult. Quantitative benefit data, with the major exception of grouping requirements, are also sparse.

- The full effects of recent and future inflation and changes in the minimum wage are unknown, and are not specifically factored into the analysis. Such effects may be substantial, but are largely independent of the specific requirements in the proposed regulations.

II PURPOSE AND SCOPE OF THE ANALYSIS

1. Purpose

Executive Order 12044, "Improving Government Regulations", contains a number of requirements to improve the regulatory process. One of these requirements is that a "Regulatory Analysis" be prepared for "major" regulations. The analysis is to be available in draft at the time of proposed rule-making, and to be revised to reflect public comments and further analysis at the time of final rule-making. The basic purpose of the analysis is to provide a careful comparison of alternative regulatory approaches and requirements, in order to provide an informed basis for early and final decisions, and to assure that regulations are not unreasonably burdensome or costly. Regulatory analyses are to present, though not necessarily quantify, all significant effects, both harmful and beneficial, of important alternatives.

Regulatory analyses are required for regulations which will impose a cost of $100 million a year, or will increase costs significantly for a particular industry or sector, level of government, or region (HEW has set the significance level for its regulations at 10% in a year). In addition, Regulatory analyses may be prepared at agency discretion for regulations which do not cross these thresholds, but which are particularly significant or controversial. The Department does not believe that the proposed day care regulation will exceed the numerical thresholds. However, because some combinations of the alternatives under consideration approach these thresholds, and because of the importance of the proposed regulations, the Department has chosen to prepare this analysis.

2. Scope of the Analysis

The proposed day care regulations and this regulatory analysis cover about one-fifth of Federal funding for day care and an even smaller segment of the total day care market. The proposed regulations will apply to day care subsidized under various titles of the Social Security Act—title XX, title IV-B, and title IV-A (WIN)—and under several titles of the Elementary and Secondary Education Act. Significant Federal day care subsidies not covered by this regulation or analysis include tax credits under the Internal Revenue Code, care purchased directly by AFDC mothers under the work expense disregard provisions of title IV-A of the Social Security Act, Head Start, and day care funding under the CETA program, General Revenue Sharing, the Community Development Block Grant program, and the USDA Child Food program. Privately funded day care is not covered unless 10% or more of the children enrolled are subsidized by one of the covered programs. The large in-home segment of the day care market remains unregulated by the Federal government, although States were and are required to regulate in-home care paid by title XX.

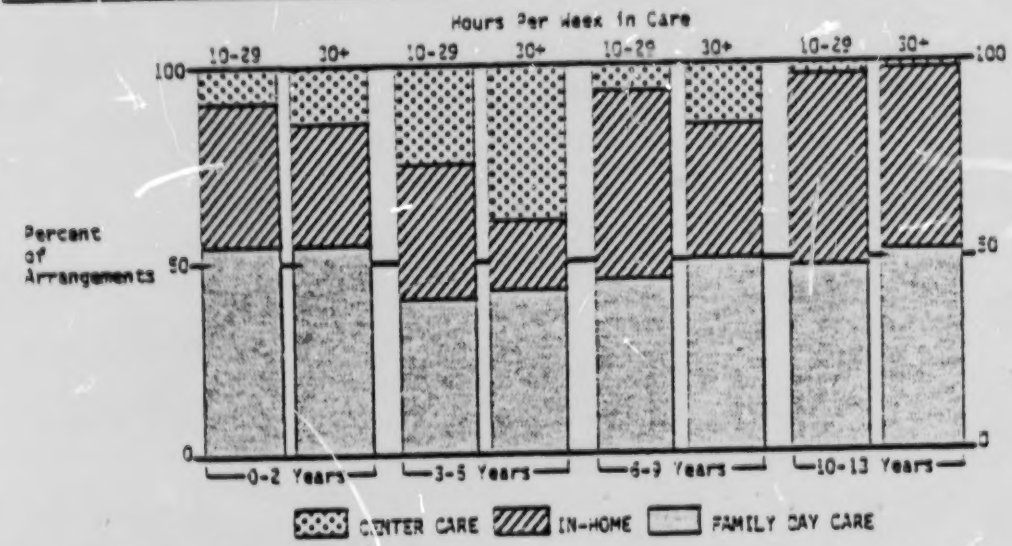
In 1976 it was estimated that total national expenditures for day care were about $10 billion—$6.0 to 6.5 billion in parent fees and $3.0-3.5 billion in Federal and State costs (reference to be supplied). Total expenditures are no doubt larger today and will increase in the next decade if demand for day care continues to rise. Total costs of day care covered by the proposed regulations are about $1.3 billion in day care budgets (plus about $.4 billion in related services).

As shown in figure 2, day care is purchased from essentially three types of providers—day care centers (15-20% of arrangements nationally), "in-home" care provided by a caregiver in the child's own home (35-40% nationally) and "family" day care provided to children in other people's homes (45-50% nationally). Some arrangements are for a few hours a week, while other children are in care 40 or 50 hours a week. Children under age 6 account for more than half the reported arrangements of 10 or more hours per week, although only one-third of the children whose mothers work or are in training are under six.

Direct government (Federal, state, and local) spending for the programs covered by the proposed regulations is estimated at about $500-600 million per year, exclusive of training, health, and state administration. Additional private cost for children in these same centers and homes, including both parent fees and the uncompensated value of caregiver time and volunteer contributions, is estimated to be about $700-800 million annually (see table 1). The pattern of expenditures for the providers subject to these proposed regulations differs from that of day care purchased by the general public, with proportionally more title XX children in day care centers. (See figure 3). In addition, about two-thirds of the federally-subsidized children and about half of all the children covered by these proposed regulations are welfare recipients, much larger proportions than for the nation as a whole. About 40% of these children are black.

The average number of children served in centers covered by the proposed regulations was estimated by the National Day Care Study to be 400,000 children—225,000 children funded by government programs and 175,000

Figure 2 HOURS IN CARE BY AGE OF CHILD AND TYPE OF ARRANGEMENT



Age of Child		0-2 Years		3-5 Years		6-9 Years		10-13 Years		Total
Hours Per Week in Care		10-29	30+	10-29	30+	10-29	30+	10-29	30+	
CENTER CARE	Number[1]	106	180	494	708	115	173	15	8	1,736
	Percent	(8%)	(15%)	(26%)	(40%)	(6%)	(13%)	(2%)	(1%)	(16%)
IN-HOME	Number	485	371	642	329	869	515	514	344	4,068
	Percent	(38%)	(31%)	(34%)	(18%)	(48%)	(37%)	(50%)	(48%)	(37%)
FAMILY DAY CARE	Number	689	652	774	741	817	693	493	356	5,215
	Percent	(54%)	(54%)	(40%)	(42%)	(45%)	(50%)	(48%)	(51%)	(47%)
TOTAL	Number[2]	1280	1203	1910	1777	1801	1381	1022	705	11,079
	Percent	(100%)	(100%)	(100%)	(100%)	(100%)	(100%)	(100%)	(100%)	(100%)

[1] Number of children (in thousands) in each type of arrangement for specified hours per week.
[2] These figures do not include approximately 300 (thousands) before—and after school arrangements for children aged 6 to 14.
SOURCE: Unco, Inc., National Childcare Consumer Study, 1975.

Table 1. Rough Estimates of Overall Size of the Portion of the Day Care Market Covered by the Proposed Regulation and Analysis

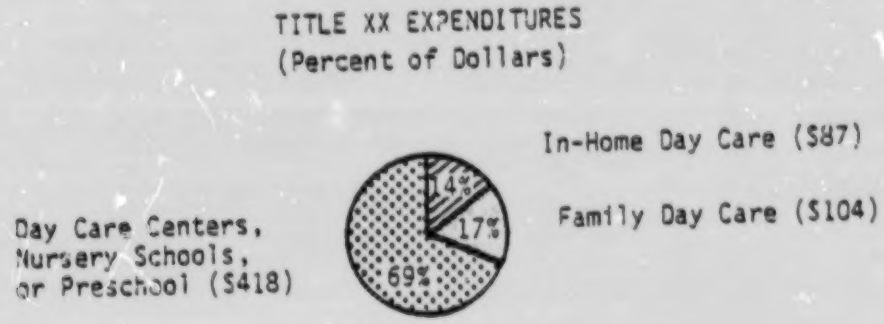
	Type of Care		
	Center	Family	Total
Approximate Direct Day Care Cost (millions):			
Government (Federal, State, and local).....	$ 415	$ 130	$ 545
Private Fee.....	325	65	390
Subtotal, paid.....	$ 740	$ 195	$ 935
Volunteer & uncompensated caregiver time:			
Fee Children.....	60	105 1/	165
Own Children.....	0	200 1/	200
Total including uncompensated (millions).....	$ 800	$ 500	$1,300 3/
Average Number of Children (thousands):			
Federally Subsidized (FFP) Children.....	225	100 1/	325
Private fee Children.....	175	50 1/	225
Uncompensated "own" children.....	—	100 1/	100
Total (thousands).....	400	250	650
Approximate Cost per Child: 2/			
Paid.....	$1,850	$1,300	$1,700
Including uncompensated.....	$2,000	$2,000	$2,000
Approximate Number of Providers:.....	8,000	50,000	58,000
Average Number of Children per Provider.....	50	5	NA
Approximate Number of Caregiver Staff:.....	80,000	50,000	130,000

1/ These estimates in particular are very tentative and are subject to substantial revision. They are presented only to provide rough indications of magnitude.

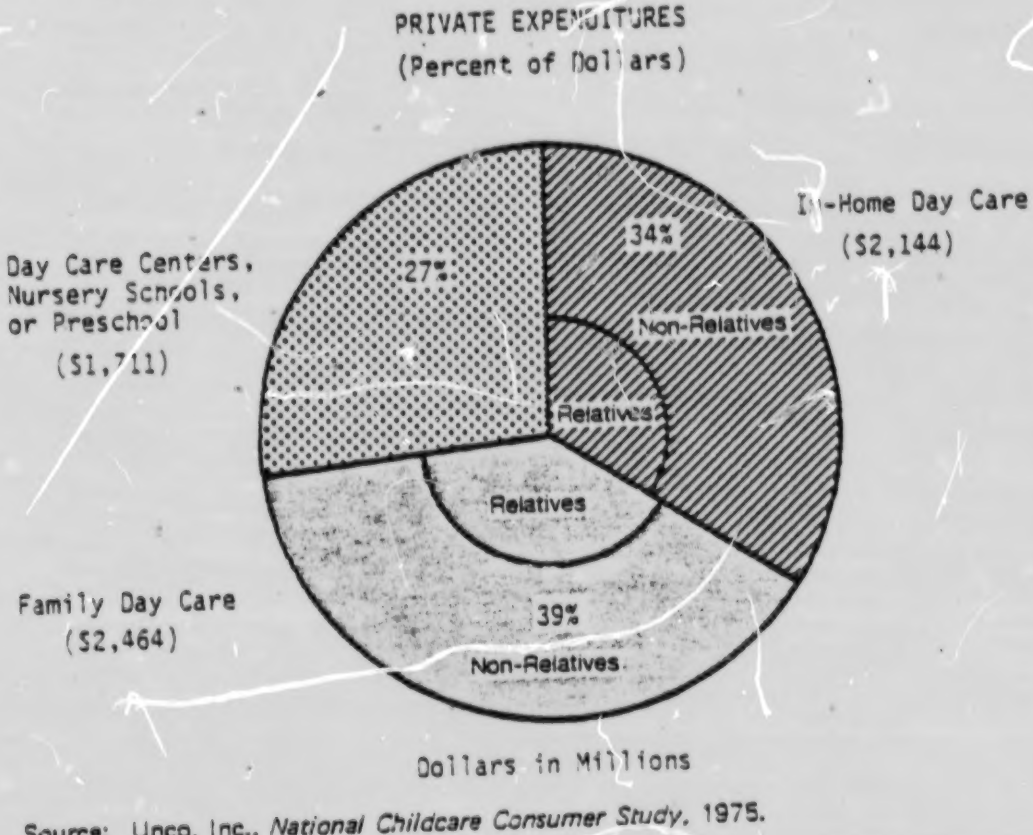
2/ Most cost estimates for both center and family care use reimbursed costs. In fact, family care is not necessarily less expensive than center care. Reimbursement typically does not cover the full economic value of both home (depreciation, utilities, etc.) and caregiver time. An adjustment is provided by the estimate including uncompensated costs.

3/ This table does not include State administrative costs of about $100 million, nor other Federal and State costs in support of these children of about $265 million. Total current base is about $1.665 billion, of which about $600 million is paid through title XX. In addition, perhaps $100 million annually is paid by title XX for in-home care not covered by these proposed regulations.

Figure 3 TITLE XX AND PRIVATE EXPENDITURES FOR CHILDCARE



Source: U.S. Department of HEW, *Social Services U.S.A.*, 1976.



Source: Unco, Inc., *National Childcare Consumer Study*, 1975.

children whose parents paid the fees. Since all of these children, regardless of whether their parents pay the entire cost, are in centers affected by these proposed regulations, the cost estimates include the total 400,000 children rather than only the FFP (subsidized) children. Unfortunately, a comparable study of family day care is not yet available, so estimates were based on the 150,000 children reported by States, plus an assumed 100,000 "own" children in cases where parents operate family day care homes.

In-home care is not directly affected by these regulations, and this analysis does not cover that portion of the day care market.

The total number of children served in a year is higher than the average number served during the year, because of turnover of children in care. As a consequence, per child costs derived from annual reported expenditures divided by annual number of children served, must be adjusted upward to arrive at full year equivalent per child costs. Similarly, total number of children served in a year probably exceeds the average number of some 650,000 by about 50-60%, for a total of about one million different children annually.

3. Limitations of the Data

As suggested above, the overall national data as to current spending, utilization patterns, and per child spending are not precise, and represent ranges rather than point estimates. In addition:

- o There is widespread expert and lay agreement as to the benefits of certain services provided through day care, but what data exist

mostly indicate directions over the short term. Quantitative estimates of long-term benefits, let alone their "dollar" value, cannot be derived from existing data. However, since the original FIDCR standards were proposed, at a time when virtually no data of any kind existed, research has provided some data on benefits. Most notably, the National Day Care Study has succeeded in developing estimates of the short-term developmental effects of various grouping alternatives on young children.

- Current cost and workload data for particular activities, such as State administration, caregiver training, and social services referral, are virtually nonexistent in a form that would allow aggregating them to national totals. Thus, it is often difficult to estimate whether a particular alternative will increase or decrease costs as compared to current level of effort.

- Much of the effect of these regulations will depend on parent, caregiver, and State choices; such choices will vary from place to place and are difficult to predict even in the aggregate.

- The effects of inflation and minimum wage increases on the cost of service and number of children served have not been included in this analysis.

These and other uncertainties are discussed in particular instances throughout the analysis. However, as a result of these imprecisions in the data, the analysis is tentative in its conclusions. Improved or additional information provided during the public comment period is welcomed and will be used by the Department in revising the analysis.

4. Regulatory Alternatives

At the outset of the regulations development process the Department considered alternatives to regulations as a means to achieve the Federal objective of insuring that federally-supported care provides safe and healthy environments and promotes child well-being. The major alternatives to regulation were extensively debated. They included:

1. Federal recommendations or guidelines on "Good Day Care Practices," without regulatory sanctions.

2. Increased Federal training and technical assistance support to States to improve licensing procedures or to aid in establishing State standards for federally-subsidized day care programs (Sec. 228.13 of the title XX regulations).

3. Creation of a National Center for Quality Day Care to improve service delivery systems, including organizational and training initiatives, and reorganization of all child day care programs under one child welfare agency.

4. Increased Federal day care information and referral services and technical assistance to local provider and consumer organizations which promote quality child care.

It was decided that regulations were needed for several reasons:

a) The FIDCR Appropriateness study reported on the enforcement problems with the 1968 FIDCR child/staff ratio requirements

for day care services. This report highlighted the need for a more acceptable set of requirements to govern group composition, which has been the most controversial and the greatest cost factor in day care services.

b) The Comparative Licensing Study and the FIDCR Appropriateness Study pointed up the general inadequacy of some State day care licensing regulations and the need for a Federal model.

c) There is a nationally acknowledged need for a clear set of day care regulations which reflect the most up-to-date knowledge of quality child care both from research and practice.

d) Anecdotal evidence suggests that a small minority of providers do not meet even the most minimal standards. As a consequence, some children may be harmed.

e) Finally, under current law HEW has a specific legislative mandate to regulate day care purchased under title XX of the Social Security Act.

All of the above needs pointed to a national problem necessitating Federal regulatory action.

III COSTS AND BENEFITS OF ALTERNATIVE PROVIDER REQUIREMENTS

This section analyzes each of eight areas in which the proposed regulation sets standards. For each area alternatives are presented and compared. Impact factors include (as pertinent) effects on children, parent choice, administrative burden, costs to parents, centers, and government, long-term supply, and relationships to other programs.

The basis of comparison is usually between an assumed enforced new regulation and the current, partially-enforced 1968 FIDCR.[1/] Approached this way, the proposed regulation is, in several ways, somewhat more costly in its effects than the current regulation. (See table 2). However, it is substantially less costly than the 1968 FIDCR would be were those requirements rigidly interpreted and enforced. Tables 3 and 4 summarize per child costs, compared in terms of: 1) current day care costs; 2) projected costs of the proposed regulations; and 3) estimated costs of the 1968 FIDCR if interpreted strictly and enforced today.

In general, the draft Regulatory Analysis concludes that the Federal government can subsidize comprehensive child day care programs at costs close to current levels, while maintaining or improving the quality of this subsidized care at levels acceptable to, wanted by, and recommended by the child care professional community, parents, and child advocacy groups.

The analysis of benefits and costs is presented separately for each of the proposed requirements. This does not mean, however, that the effects of the proposed requirements are independent. For example, a caregiver who

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1/ The 1968 Federal Interagency Day Care Requirements (FIDCR) were originally intended to apply to all Federally funded day care. The history of the 1968 FIDCR is explained in the preamble to the proposed regulations.

Table 2. Summary of Annual Cost Impacts After Full Implementation (dollars in millions) 1/

Item by Source of Funds	Center Care Current Cost	Center Care Change Low Option	Center Care Change High Option	Family Care Current Cost	Family Care Change Low Option	Family Care Change High Option
Primarily Provider Costs:						
Program of Activities	$ 24	$ —	$ —	$ 16	+$ 1	+$ 1
Caregiver Training	6	—	—	4	—	—
Nutrition	96	+ 7	+ 14	60	+ 5	+ 10
Health & Safety	6	—	—	1	—	—
Physical Environment	96	—	—	50	—	—
Social & Health Services Referral	28	—	+ 5	1	+ 1	+ 1
Parent Involvement	2	—	—	1	—	—
Grouping of Children	418	- 72	- 2	319	—	—
Administration	124	—	—	48	—	—
Subtotal	$800	-$ 65	+$ 17	$500	+$ 7	+$ 12
Primarily Other Budgets:						
Caregiver Training	$ 15	+$ 5	+$ 10	$ 5	+$ 6	+$ 12
State Overhead (monitor, TA, etc.)	75	+ 4	+ 4	25	+ 4	+ 4
Health-all programs and private	149	+ 19	+ 19	96	+ 16	+ 16
Social Services-all programs 2/	NA	NA	NA	NA	NA	NA
Federal	—	+ 1	+ 1	—	+ 1	+ 1
Subtotal	$239	+$ 29	+$ 34	$126	+$ 27	+$ 33
GRAND TOTAL	$1,039	-$ 36	+$ 51	$626	+$ 34	+$ 45

1/ Point estimates shown in this table; actual analysis provides ranges. These numbers are very uncertain, but provide rough comparative orders of magnitude. All increases are related to improved enforcement; the options do not impose more costly standards than the 1968 FIDCR.

2/ These costs may be substantial but cannot now be estimated.

Table 3: Approximate Cost Per Child-Year for Day Care Centers

Item by Source of Funds	Est. Current Cost	Projected Cost Low Option	Projected Cost High Option	Potential Cost of 1968 FIDCR if Enforced Today
Primarily Provider Costs:				
Program of Activities	$ 60	$ 60	$ 60	$ 135
Caregiver Training	15	15	15	95
Nutrition	240	260	275	260
Health & Safety	15	15	15	60
Physical Environment	240	240	240	240
Social & Health Service Referral	70	70	80	100
Parent Involvement	5	5	5	70
Grouping of Children	1,045	865	1,040	1,200
Administration	310	310	310	390
Self-Evaluation	0	0	0	25
Subtotal, per Child-year	$2,000	$1,840	$2,045	$2,575
Primarily In Other Budgets:				
Caregiver Training	40	50	65	0
Health Services	375	425	425	380
Social Services	NA	NA	NA	NA
Subtotal, per Child-year	$ 415	$ 475	$ 490	$ 380
Total Cost per Child-year	$2,415	$2,315	$2,535	$2,955
Increase per Child-year over Current Costs	—	-$ 100	+$ 120	+$ 540
Decrease per Child-year from Enforced 1968 FIDCR	-$ 540	-$ 625	-$ 405	$ —

Table 4: Approximate Cost Per Child-Year for Family Day Care

Item by Source of Funds	Current Cost	Projected Cost Low Option	Projected Cost High Option	Potential Cost of 1968 FIDCR if Enforced Today
Primarily Provider Costs:				
Program of Activities	$ 65	$ 70	$ 70	$ 135
Caregiver Training	15	15	15	95
Nutrition	240	260	280	260
Health & Safety	5	5	5	60
Physical Environment	200	200	200	200
Social & Health Service Referral	5	10	10	100
Parent Involvement	5	5	5	70
Grouping of Children	1,275	1,275	1,275	1,275
Administration	190	190	190	240
Self-Evaluation	0	0	0	25
Subtotal, per Child-year	$2,000	$2,030	$2,050	$2,460
Primarily In Other Budgets:				
Caregiver Training	20	45	70	0
Health Services	385	445	445	390
Social Services	NA	NA	NA	NA
Subtotal, per Child-year	$ 405	$ 490	$ 515	$ 390
Total Cost per Child-year	$2,405	$2,520	$2,565	$2,850
Increase per Child-year over Current Costs	—	+$ 115	+$ 160	+$ 445
Decrease per Child-year from Enforced 1968 FIDCR	-$ 445	-$ 330	-$ 285	$ —

Notes to Tables 3 and 4

- Tables do not include State and Federal overhead costs for monitoring, technical assistance, evaluation, etc.

- The primary source for the 1968 FIDCR column was developed by the Children's Bureau in 1969. See tables 8-1 and 8-2 in Child Care in Massachusetts: The Public Responsibility, a study for the Massachusetts Advisory Council directed by Richard Rowe, 1969. However, the original estimates have been updated and modified for this analysis.

- The figures in these tables generally assume a rigid interpretation of the 1968 FIDCR. Because the FIDCR were ambiguous, lower cost estimates for many items are plausible, as discussed in Chapter 3 of the Appropriateness Report.

- Entirely aside from particular uncertainties about individual entries, the figures are unavoidably arbitrary in allocating caregiver time among the various headings, since in some cases a caregiver may perform two functions simultaneously, e.g., supervising children while consulting with parents.

- All entries are rounded to the nearest $5 or $10 per child, to emphasize that they are approximate. Subject to rounding differences, all entries equal the corresponding entries in table 2, when multiplied by the appropriate number of child-years (400,000 for centers, 250,000 for family care). Similarly, all estimates of per-child cost changes from current practice or from the 1968 FIDCR equal the corresponding differences in total cost changes divided by the appropriate number of children.

receives nutrition training may thereby avoid mistakes in menu selection, which in turn can prevent iron deficiency anemia and other types of malnutrition, and improve a child's ability to benefit from the program of activities of the provider. While an attempt is made to at least identify all significant effects of each requirement, the state of knowledge does not allow a single, comprehensive, measured summation of benefits to parents, children, and society as a whole.

A significant alternative involved in the regulation proposal is the enforcement of standards for family day care, a sector in which the current regulation is least enforced in most states. The effects of this alternative are included in each section along with effects on centers. In general, both the benefits and costs are proportionately somewhat higher than for center day care. However, the pattern is different since the controversial group size and staff-child ratio standards do not impinge consequentially on family day care (these homes have smaller groups than do centers). Conversely, family day care providers are much less likely to have had previous training than center staff, and benefits and costs of an enforced training requirement are correspondingly higher.

Each of the first eight areas analyzed below is proposed as a requirement on providers, enforced through State Administration (an overall requirement analyzed in section IV). Providers who do not, upon inspection, meet these requirements will be denied future eligibility for Federal financial participation unless they agree to take timely corrective action. States may, in addition, choose to regulate private day care with similar (or different) requirements, but that choice is independent of these requirements.

The ninth area analyzed below, provider administration, is not subject to proposed standards but is an important component of provider costs.

In the analysis below, the term "center care" means day care provided outside of a child's own home in groups of 12 or more, and "family care" means day care provided to children in homes other than their parents'. (As mentioned above, the proposed regulations do not cover "in-home" care in which a person is hired to care for a child in its own home.)

1. Program of Activities for Children

Requirement

The proposed regulation presents one alternative, to require that providers establish (and document in writing) a planned program of age-appropriate developmental activities. The plan need not meet any specific standard of craftsmanship, content, or frequency, and need only describe typical activities in a typical week. This requirement replaces the education component in the 1968 FIDCR which was made optional by title XX Amendments to the FIDCR in 1975. The education component of the 1968 FIDCR reflected a compensatory education approach which required costly educational activities and implicitly required teachers with four-year degrees.

This requirement assumes that the caregiver or program manager has basic child development knowledge and skills (see discussion of training below). A program plan for working with the children is developed from this child development knowledge base.

Costs

Part of the cost of the proposed requirement lies in staff time necessary to plan and write. On the assumption that the plan would not be more frequent than annual or more detailed than could be contained in several pages, that several hours would be needed for preparation, and that caregiver time is valued at $3 an hour, costs would be negligible. Even if 20 hours a year were needed for preparation, costs would reach only about $60 per year per caregiver. For centers, this would average about $1 per child, for family day care about $12 per child.

Assuming that 90% or more of centers now meet the revised requirement, cost increases due to strict enforcement would be negligible. Assuming that for family care the plan typically exists, increased cost of essentially complete compliance would also be negligible (or, on the alternative assumption that 10 additional hours a year would be needed to write it down, about $6 per child or about $1 1/2 million annually).

There are also costs for supplies and equipment to carry out the plan. All providers currently have at least some of these supplies. Moreover, in both centers and family day care homes, the provider can request that parents supply any needed supplies and in current practice this is a major in-kind contribution by parents and other community-based sources. "Educational" materials for young children under the proposed requirement will cost no more than current practice, except perhaps for inexpensive items needed in a small proportion of family day care homes.

Benefits

The benefits of this requirement are expected to be consequential, for the providers who would not otherwise comply. Aggregate benefits increases are likely to be small, however, because most providers would meet this standard even if it were not a requirement. Benefit increases will be greater for family day care.

Research and evaluations of Head Start, Follow-through, and other intervention programs have found that programs with clearly defined objectives and activities deliberately sequenced to meet those objectives, were producing more positive cognitive, social, and emotional outcomes than programs that lacked defined objectives and goals. Such plans achieve

their benefits through effects on activities (provider personnel and volunteers are guided in, and focus on, developmentally beneficial activities) and, perhaps, because ability and willingness to prepare and execute such a plan is a correlate of basic competence in running a "good" program.

Other Significant Effects

There might be a small adverse effect on supply, because some existing or potential family care providers will not be able to prepare written plans. Training and assistance from State agencies should largely ameliorate this problem, to the extent that it develops.

Other Alternatives

An alternative not presented in the proposed regulation would be to require that activities be planned, but not necessarily in writing. This alternative would reduce both costs and potentially adverse effects on supply for family care. It would make enforcement considerably more difficult, because a provider's activities could not be checked against a written plan and evidence of lack of planning would be virtually impossible to obtain. It is not known whether written plans are necessary to achieve the benefits.

An alternative similar to the education component of the 1968 FIDCR was considered by the Department. An education requirement could potentially be double or triple the per child costs of the program of activities requirement (see 1968 FIDCR costs in table 3), would be arguably inappropriate for day care programs, would be impossible for family day care providers to meet, and would not have consequential educational benefits (with the possible exception of four and five year olds).

Sensitivity Analysis

The numbers above are illustrative, because no firm data exist. If current compliance were lower than estimated, both cost and benefit increases would be higher. If any States required elaborate plans and/or materials, costs could be substantial for some family care providers.

2. Training for Day Care Facility Staff

Requirement

The emphasis of the proposed training requirement is on continuing education and training of all caregivers, regardless of previous education, degrees, training, and experience. The proposal will allow a broad range of planned, educational/training approaches, both at the center and at other places, sponsored by universities, public schools, voluntary organizations, professional groups, etc. A caregiver will be required to have training within six months of employment and at least annually thereafter.

Those areas where most caregivers (both family and center) need support include child development relevant to the ages of the children in care, nutrition, health practices, safety and sanitary practices, parent communication, arrangement of space and use of materials in day care settings, and skills necessary for work with children who have special needs (e.g., handicapped children). These regulations contain two options; one which recommends that these topics be addressed in the training offered, and the other which requires it.

While the training requirement in the 1968 FIDCR can be interpreted in the same way as the proposed requirement, it required that nonprofessionals be given career progression opportunities and therefore implied a more detailed and expensive training regimen. In addition, the higher initial skills implied by the educational services requirement would suggest a greater range of training efforts was needed.

Costs

There are about 80,000 caregivers in centers serving FFP children, and some 50,000 family caregivers. Although a number of training scenarios can be projected, each with a different price tag, a reasonable estimate of cost is $150 per trainee for Option A and $300 per trainee for Option B. 1/ The total annual cost of continuing training for FFP caregivers would therefore be about $20 million per year under Option A (of this, $12 million is for centers) and $39 million per year under Option B (of this $24 million is for centers). Costs per child would range from $30 for the low option to $60 for the high option, for both family and center care.

Providers seem to be interested in training and are willing to be trained on their own time. Costs will depend on both the length of training and location. Training packages for family day care could be very similar to ones discussed for centers, with one major exception — if training is conducted in the trainee's home over an extended period, cost will be higher per child served.

States are planning to spend approximately $100 million in FY 1980 for Title XX training. Since day care constitutes 20-25% of the expenditures, one would expect that States will spend $20-25 million in training State

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1/ $327 is the average cost of training in ten states recently studied (APWA/REAP). However, training costs can vary from $50, to over $891.00 per caregiver for CDA training offered Head Start caregivers. Options A & B could cost the same for training of the same intensity. However, many States may choose to reduce costs by offering training in fewer subject areas and thus it could be argued that A will cost less than B.

administrative staff and service providers. Presumably, then the $20 to $30 million, mentioned above, would not be new costs to the taxpayer, but would be partially (or fully) offset by directing training funds to meet this requirement.

Although the 1968 FIDCR required training for family day care home providers, little training appears to have been done. The proposed regulations when implemented and enforced will increase costs above present levels, especially for family day care. Our estimate of increased costs is $5 to $10 million for centers, and $6 to 12 million for family day care.

Benefits

There is substantial evidence that training is important to good caregiver performance, whether in family day care situations or in center care. 1/ The importance of training is supported by the findings of the National Day Care Center Study. This study found that caregiver specialization in subject areas pertinent to child care and development of children was related both to positive caregiver behavior and child achievement.

The research and evaluation data are not definitive with regard to the differential effects of different training programs on levels of effort. Thus, no one training program can be recommended as being the "best"

1/ See the Appropriateness Report, chapter 2.

nor can specific gains in child development be linked to the extensiveness of a training effort. Nonetheless, it can be presumed that Option B will have greater benefits than those of Option A.

Other Significant Effects

Should some states choose to require more extensive training than that necessary to meet these options there could be significant cost increases and adverse effect on supply for regulated family day care. Many caregivers, for example, could not devote the time to, or handle, the academic demands of college courses in child development. However, the proposed requirements, as written, do not imply or encourage formal, advanced training.

On the other hand, because the requirement leaves a great deal of discretion to States it will allow any type of training of any length (e.g., one hour a year) to satisfy compliance. Such "token" training would not promote caregiver quality. The administrative requirement is intended to prevent this potential problem by placing the State in a "quality control" role. The State would not only support a variety of training efforts but review those submitted by centers as being of sufficient quality to meet the intent of the requirement. However, the administrative requirements as they are presently written do not clearly reflect this intent.

Some States may choose to interpret the proposed requirement, "shall develop a statewide plan ..." in such a way that one uniform program or package is developed to apply to all providers. This could be costly although it may appear to some States to be the easiest approach to

administer. Individuals familiar with State-run training program argue that as much as 50% of the training dollar will be expended to support State administration of such a program. In addition, the quality of one uniform State effort could in all probability not match the quality which could spring from a variety of locally developed efforts, reimbursed by States. Finally, such an approach would be wasteful because it would not recognize the different levels of skill among caregivers, and hence differences in training needed.

Other Alternatives

The 1968 FIDCR recognized the role of the umbrella agency in family day care for providing training. The proposed requirements do not impose any responsibility at this level. The burden of the training requirement falls on the family day care facility and the State agency. The umbrella agency which sits in the middle has no responsibility. This may be an inequitable distribution of burden. An alternative would be to develop a requirement for the umbrella agency which coordinates family day care programs.

The proposed requirements do not state specifically that the training be appropriate to the ages of the children in care. This could result in training packages which are inappropriate for the age groups with whom caregivers are working. This has been identified as a problem in the FIDCR Appropriateness Report especially in regard to the training of infant and toddler caregivers.

Sensitivity Analysis

The cost and benefit estimates presented above are not adjusted for caregiver turnover. In centers the mean rate of turnover for staff positions is at least 15%. 1/ Family day care providers are much less stable. Only about 40% offer service for more than one year. Many caregivers go out of business because of a loss of clientele, often because clients are dissatisfied with the care provided. Training might improve caregiver stability because parents will be more satisfied with arrangements.

Although annual expenditures for training could be affected substantially by turnover in some situations, we have not attempted to adjust for turnover because some type of training will be provided annually regardless of whether or not the trainee is a new employee. However, costs would be affected if the orientation training is offered separately from the regular on-going annual training.

The more important impact of turnover is on the growth or development of the caregiver. In-service training should proceed incrementally, each session building on the one that preceeded. The caregiver would be expected to acquire knowledge and skills of increasing sophistication or complexity. Failure to tailor training to each caregiver could therefore mean fewer caregivers with sufficient training to achieve developmental benefits. Some facilities or day care systems faced with high turnover may never attempt to offer the full sequence of training.

1/ This figure reflects the number of positions that changed during a year but it does not include the number of times any one position may have changed.

3. Nutrition

Requirement

The proposed regulations contain several alternatives for nutrition. One option (A) simply requires that "adequate and nutritious meals and snacks" be prepared in a "safe and sanitary manner", as in the 1968 FIDCR. (At least 33 State licensing codes have some sort of provision that centers serve nutritious meals.) Another option (B) specifies time intervals for meals and snacks, including an offer of breakfast to children whose parents specifically request it. Under each option the state agency must make available professional nutrition advice to providers. No option attempts to define specific content of menus, or requires that cooks meet a particular standard of training. (However, the USDA Child Food program, in which many centers participate, does specify menu content by regulation.)

Costs

The average annual cost per child of providing one nutritious meal and two snacks per day is about $240-$260. (A nutritious lunch costs approximately 75 cents and two snacks about 40 cents.) About 90% of centers provide at least one meal and two snacks (or two meals and one snack), and over 95% of centers provide lunches. Almost all family day care providers serve at least one meal and two snacks, and approximately two-thirds serve two or three meals per day. Although one study has found that some family day care providers serve meals that are less than nutritious, the problem could be remedied by training rather than increased codes of food stuffs.

On the assumption that 5% of the facilities would have to add a lunch and 2 snacks for their children (approximately 20,000 center children and 12,500 family day care children), and that an additional 5% would have to add snacks, we estimate that option A would add costs of $7 million for centers and $5 million for family day care, when enforced.

Option B will be more costly because it calls for an additional full nutritious meal for children who are in care at breakfast time (when parents request) and in the evening. Very few children are in night care, and most of these receive dinner, so the dinner requirement is not likely to have a significant impact on provider costs.

Breakfast presents more complex cost issues because about one-third of centers are open in the early morning but do not offer breakfast. For neither centers nor family care are data currently available on the proportion of children actually receiving breakfast from providers who offer breakfast.

On the assumptions that the proportion of children whose parents would request breakfast would be unchanged in the providers now offering it, and that the proportion requesting breakfast would be be about 30% for the one-third of providers not now offering breakfast, the cost of the option to offer breakfast where parents request it would be about $12 million, $7 million for centers and $5 million for family care (33% times 30% times 75 cents times 250 days times 650,000 children). This calculation is most sensitive to the assumed proportion requesting. Our assumption is that 30% of all children would need and want breakfast

and would not otherwise get it (to the extent that more children requested it, but had been getting it at home, cost savings to parents would offset any provider cost increases). The 30% estimate is largely judgmental, based on the known incidence of nutritional deficiencies among all children and the presumption that most parents would want to continue serving breakfast to their own children, at home.

Benefits

Incremental benefits of the basic requirement are likely to be slight, precisely because most providers already meet it. It may, however, prevent damage to children by providers (presumably, a tiny minority) who might otherwise provide inadequate nutrition to children who spend large amounts of time in care. In addition, it is likely to upgrade the nutritional quality of some family day care meals, through the assistance provided by State agencies to persons who might otherwise not realize that menus could be improved at no additional cost (e.g., by avoiding sugar).

The option which mandates breakfast would improve nutritional status significantly for those children who needed it (as calculated above, 30% of the children in one-third of all care settings, or 65,000 children). The health and developmental benefits of breakfast are believed to be substantial.

Other Significant Effects

None, on the assumption that parents would not be coerced into relying on providers for meals, against parent wishes, and that the requirement would therefore not intrude into a traditional family responsibility.

However, there are potential problems with the Department of Agriculture's Child Food programs. Not only do these programs prohibit participation by for-profit providers (about one-fourth of all FFP centers), but also a significant number of family day care homes may have difficulty meeting the complex program, paperwork, and reporting requirements of these programs. As a result, most day care children may be denied a source of improved nutrition, and providers an important source of revenue.

Sensitivity Analysis

The calculations above could easily be high or low by half or more, depending on how many children need breakfast and would not otherwise get it, and on the extent to which parents choose to use providers for breakfast.

4. Health and Safety of Children in Care

Requirements

The proposed requirements in this area present in some respects the most complex set of choices. There are two major areas of potential costs and benefits: (a) standards affecting the frequency and content of the health care children in day care receive; (b) standards affecting the amount of assistance and follow-up the day care center is required to give parents to assure needed health care is obtained.[1/]

(a) The proposed rule presents one major option for standards affecting the frequency and content of the health care children receive but there are others (including the one contained in the 1968 FIDCR) as explained below:

i. A "routine physical" including necessary immunizations can be required at entry. (Such a requirement would parallel current law in most states requiring a physical and/or immunizations for school entry and/or for day care.)

ii. In addition to a physical at entry, annual reexamination could be required.

iii. A "health assessment" meeting EPSDT or AAP[2/] standards and covering dental, developmental, and other tests not ordinarily included

1/ In addition, there are proposed requirements elsewhere in the regulation that facilities meet minimum safety standards and that caregivers have physicals. These are discussed below in the Physical Environment analysis.

2/ "EPSDT" is the Early Periodic Screening, Diagnosis and Treatment component of the Medicaid Program, "AAP" stands for the American Academy of Pediatrics.

in routine physicals could be required, to be updated according to a periodicity schedule (the proposed option).[1/]

iv. The provider could meet the above standard and in addition be made responsible for providing or paying for examinations, immunizations, and actual health care not otherwise available to children (implied by the 1968 FIDCR).

(b) The proposed rule presents two major options for care standards affecting the amount of assistance and follow-up the day providers are required to give parents to assure needed health care is obtained, but a third is possible as presented below:

i. The day care provider can, most simply, be required to inform parents and refer them to health care services through existing referral listings (including those provided by State agencies) (the proposed Option A).

ii. In addition, the provider can be required to coordinate with those existing programs and agencies which already assist parents in obtaining health care and follow-up to assure it is obtained.

1/ We have assumed dental assessments at ages three, four, and five by trained dental personnel are required under Option B since American Academy of Pediatrics standards recommend that children receive an initial dental examination at age three and updates every six to 12 months therafter. An alternate interpretation is that dental assessments by a dentist at these ages is not required, since the necessary statement is to be from the health care provider and not specifically from a dentist. EPSDT requires a dental exam and necessary care.

iii. The provider can be required to assist parents and perform follow-up with its own staff if it is not otherwise obtained (the proposed Option B, applicable only to centers).

Costs

Annual health care spending on children, from all sources, averages about $250 per child. The average is about the same for all income groups, and title XX day care children are probably not different. Since there is a turnover rate of about 50% annually in day care slots, the average enrollment of 650,000 children in covered care involves about 1 million different children. Therefore, these 1 million children already receive about $250 million annually in preventive care and other health services. It is against this base that the costs of the alternative health requirements are assessed.

(a) Standards affecting the frequency and content of the health care children receive--

i. Entrance physicals and immunizations would result in incremental costs for the examination and treatment of day care children of about $5 million annually above current cost, assuming that 90% of the center children but only 60% of the family care children would otherwise have entry physicals. Of this, approximately $1.5 million would be for center children and $3.5 million would be added costs for family day care children.

ii. Annual reexamination would result in incremental costs of about $10 million annually. Approximately $4.5 million would be for

center children and $5.5 million added costs for family day care children.

iii. Use of health assessments (the proposed option) would result in incremental costs of about $35 million annually. Of this increase, almost half is for dental screening and treatment. Approximately $19 million is for centers and $17 million is for family day care children. This net increase includes an offsetting saving because the recommended periodicity schedules do not call for annual examinations.

About half of both the base costs and the increased costs would be borne by Medicaid;[1/] perhaps one-tenth by Community Health Centers, Maternal and Child Health, and Public Health Clinics; and about forty per cent by private payments (primarily the non-FFP children). Only a tiny fraction of these health care costs would be borne by day care providers under the alternatives above.

iv. Enforcing the 1968 FIDCR could shift to day care providers as much as 10% of the 40% of the bill currently paid by private sources, or about $29 million ($17 million for centers and $11 million for family care). Total costs would, however, be the same as for the proposed option.

1/ We estimate that about 70% of FFP children are eligible for Medicaid. (Most eligible children are served by Medicaid, although only a fraction are served by its EPSDT component.) The proposed Child Health Assessment Act might increase this percentage to 85%, almost 50% of all children in these day care facilities.

(b) Cost for standards affecting the amount of assistance and follow-up the day care provider is required to give parents (to assure needed health care is obtained) are related to similar options under social services. If the social services section of the regulation requires the addition of center staff to assist parents and perform follow-up for all social services, including health, the incremental costs for a duplicative requirement in the health area would be zero. If the social services requirement is not included, health-related assistance could involve:

i. Costs of simply informing and refering are negligible, although there would be some slight burden on the time of existing staff.

ii. Costs of coordinating with other programs are also negligible. New personnel would not be required, but larger (although still small burdens) would be imposed on the time of existing staff.

iii. Adding new staff to assist parents and perform follow-up to assure that needed health services are obtained could cost up to $5 million (see section III-6 below). (Intensive case management, of the kind required in the EPSDT program, however, could cost far more.)

Benefits

From the perspective of the individual child who receives needed health care and who would not have otherwise obtained it, the benefits of any of these options are significant. For example, lead poisoning and certain ear infections can lead to permanent retardation or deafness if not found

and corrected early. However, overall increase in health benefits (and costs) under any of these options are small compared to total health needs of (and costs for) these children simply because the great majority of these children already receive services under existing government programs such as EPSDT, Medicaid, Maternal and Child health funded projects, Community Health Centers, and Public Health Clinics, or from private sources. The number of day care children with serious, reversible health problems not addressed by any of these other systems is small compared to the total number of children in day care. On the other hand, some proportion (we estimate 10% to 20%) of day care children are not caught by these other programs and will not be treated unless the day care provider intervenes. This general situation reverses in the area of dental care. Most poor children above the age of three have unfilled cavities, and dental benefits resulting from the proposed requirement will be substantial.

In excess of 40 States require immunizations for day care children and school children (about one-third of all day care children are aged six or above), and most of these States require examinations as well. As a result, a minimum requirement that a child receive a health examination at entry, even if vigorously enforced, will result in small <u>additional</u> health benefits for these children. It is difficult to estimate what the further benefits would be of requiring more frequent examinations (or examinations which meet higher standards) because there is little evidence on how frequently conditions <u>both</u> develop after entry <u>and</u> would otherwise be untreated. Whether these benefits outweigh the costs of such requirements is not something which can easily be assessed.

Estimates from the EPSDT program experience indicate that the increase in treatment costs due to screening averages about $28 per child when weighted for day care ages.[1/] This is close to the average screening cost of $24 and much less than the total EPSDT costs per child of $60, including screening, outreach, and case management but excluding treatment. Average treatment costs are low because many of the conditions discovered in younger children are inexpensive to treat (e.g., refractive errors in vision). Correcting the latter condition results in significant benefits to some of the children at a low price (those for whom learning is facilitated because the child would not otherwise read).

On the other hand, correction of many minor conditions (e.g., diaper rash, borderline anemia) found during the assessment process do not yield significant health benefits, precisely because these conditions are self-correcting or do not threaten normal development.

No estimate for savings in future treatment costs due to current preventive health assessments is available. In the first year after assessment there are improvements in appropriate utilization, with less spent on hospitalization and much more spent on dental and ambulatory services. However, the magnitude of possible savings in costs after the first year are currently undocumented.

Other Significant Effects

In addition to the direct cost differences between these alternatives, they vary as to enforceability. Requirements that health examinations meet specific

1/ Harold D. Dickson, EPSDT Diagnosis and Treatment Costs: A Five State Analysis, Health Services Research Institute, San Antonio Texas, September 1978, conducted under Health Care Financing Administration Contract HCFA-M78-0361.

standards imply that records must be kept of specific areas of health status that are examined and that someone will check to see that examinations were properly performed. Absent state agency or day care provider attempts to become enforcement agencies vis-a-vis health providers, the proposed requirement that examinations meet exemplary standards might be largely ignored in practice.[1/] If such enforcement were necessary to assure compliance, and serious efforts were made to affect or monitor medical practice, there could be substantial costs and medical provider resistance. However, this analysis assumes voluntary compliance by the medical profession, and therefore neither supply effects, nor costs of enforcement and of transferring records under these more rigorous options, have been estimated.

Other Alternatives

Other alternatives to those presented in the proposed regulation have been included in the analysis above. (In addition, the proposed training requirement includes provision for educating caregivers in recognizing and dealing with health and sanitation problems.)

Sensitivity Analysis

The above estimates are particulary sensitive to assumptions that (a) there is a difference in cost of $10 between a health assessment meeting AAP or EPSDT standards and a routine physical; (b) that about 90% of center children and 60% of family care children currently have entry exams, and that

1/ Ruben Meyer found that the treatment resulting from EPSDT referrals was only 35% adequate in Michigan. He argues that EPSDT children were not treated differently from other children in these physician's practices. See Tracer Evaluation of Diagnosis and Treatment of EPSDT Referrals, Social Rehabilitation Services Grant # 11-P-57761/5-01, December 1976.

only 20% of these exams would meet the full requirement for an assessment; (c) that dental assessment will cost $15 and dental treatment $20 per child for 90% of the children; (d) that despite the 1968 FIDCR few day care facilities are currently providing direct health care of follow-up to assure that children obtain needed health care; (e) that the child turnover rate is 50-60%. (f) that the requirement applies to own children in family day care as well as formally enrolled children, (g) that an enforcement apparatus to check on the quality of public and private examinations will not be required or established, and (h) that full compliance will be achieved.

5. Physical Environment

Requirement

The proposed regulation presents only one alternative. It requires providers (center and family day care homes) to meet state and local requirements for licensing or approval, and applicable state and local codes relating to health, sanitation, building, and fire safety, as well as transportation, swimming, and equipment safety.

The basic requirement adds no new burdens to the child care delivery system, since the existing FIDCR (and all states) require that such standards be met. The intent of the regulation is simply to ensure that existing state codes and standards are more adequately met by providers and that states more actively assume their responsibility of enforcing local codes. However, many providers violate State and local standards, and HEW monitoring findings indicate that the majority of all violations of the 1968 FIDCR were related to physical environment. 1/

Costs

Currently estimated costs for maintaining a safe physical environment are around $96 million for center care and $60 million for family day care homes. Most of these costs are for rent, heating, and utilities (the family day care cost estimate is largely imputed, since reimbursement practices do not often include major allowance for these items). The vast majority of safety problems reported are low cost items, primarily involving one-time costs,

1/ APS Title XX Day Care Monitoring Report, February, 1979.

usually non-structural, to correct physical violations. While in the aggregate total additional costs will not be large, there are some facilities that will require extensive repair to meet state and local codes. If the regulation leads States to more rigorously police their safety codes, some of these facilities may even be forced to close.

Where standards are appropriate, costs of maintaining a safe and health physical environment for family day care homes require little more than the normal work of maintaining a safe, clean and sanitary home. State and Federal health requirements assure that children are healthy or isolated from other children when illness occurs. HEW monitoring has shown a significant number of facility health, fire, and sanitation violations are such housekeeping type violations which require little money, if any, to correct.

On the other hand, structural repairs can be expensive. However, even a major repair to a facility of $4,000 or $5,000 when amortized over 5 or 10 years is only $10 to $20 per child per year. Of course, the center director may have a serious cash flow problem and find it very difficult to raise the funds necessary to pay for the building permits and to obtain long-term financing and make such extensive repairs. For this reason, some facilities, particularly in urban areas, do not meet safety codes.

The transportation, swimming, and equipment standard is new. This aspect of the physical environment requirement could increase enforcement costs in instances where state regulations will have to be changed to include these specific provisions. Moreover, while the states are changing codes

to address these few items, they may be influenced to reform other aspects of the state and local codes pertaining to child day care. The costs of poorly crafted local and state day care licensing and related building, fire and safety codes could be significant for a small proportion of providers; it is impossible to predict whether State reforms would increase or decrease such problems.

Benefits

In terms of benefits to children, physical environment requirements on day care facilities are widely believed to be one of the major milestones of progress in improvement of child day care. Grossly unsanitary conditions and "firetrap" conditions involve major risks to the well-being of children. For the unknown (but very small) minority of providers who operate unsafely, enforcement benefits are substantial. However, this benefit is obtained only where physical environment standards are appropriate for child care and actively enforced by state and local agencies (see Sensitivity Analysis below).

Other Significant Effects

Often there is little coordination among agencies responsible for the various codes, producing codes that sometimes are contradictory.[1/] For example, a fire code may require that doors open out while a building code may require that doors open in. There is often a blanket prohibition on use of basements or floors above the first floor for day care, even though many facilities have adequate exits and other safety measures related to

1/ FIDCR Appropriateness Report, page 63.

evacuation. Absent careful design and coordination work by States, these kinds of requirements may adversely effect supply of care, or result in unnecessary costs.

Unnecessarily costly requirements directly affect supply of child care in many communities because the start-up and continuing maintenance costs can be prohibitive to many persons interested in providing child day care. These effects are most likely in the very communities which need good child care services. Likewise, homes in very poorly maintained apartment buildings or extremely deteriorated neighborhoods often cannot measure up to basic local and state licensing and related codes. The cost of bringing some of these homes up to standard can be prohibitive and the going rate for family day care can in no way cover these costs. The ultimate effect is that many children are being cared for in unregulated family day care arrangements.

Alternatives

The Department considered regulating the physical environment directly through Federal standards. The legal, cost, and other problems involved would have been formidable, and there is no evidence that substantial benefits would occur from superimposing additional Federal standards on top of State and local codes. The Department also considered requiring reexamination of codes by States and localities. Such reexamination might be ineffectual or counter-productive absent significantly improved knowledge about the effects of various code requirements.

Sensitivity Analysis

State and local codes vary widely. There is no current evidence as to which particular standards are most effective or least costly, or how differences in standards differentially affect child safety. Because the incidence of extreme harm (e.g., deaths in fires) is very low, the potential for increases in lifesaving from improved or better or enforced standards is correspondingly low, though of course exceedingly important.

Few data exist on other aspects of benefits (e.g., prevention of lead-based paint poisoning through enforcement of standards). As a consequence, an overall estimate of the effects of these requirements is currently impossible.

As suggested above, the principal effect of enforcement is on supply, rather than on costs to providers who remain in business. We have no basis for estimating a continuing cost increase (or decrease, if strict enforcement led to elimination of unreasonable requirements) due to enforcement. However, no matter how calculated it is unlikely that any such estimate would have been substantial (e.g., an extra $20 per child for 5% of providers would be less than $1 million annually).

6. Social Services

Requirement

For day care centers, the regulations offer two alternatives. One option requires the center to provide information to parents, as needed, concerning social services available in the community, and refer parents to needed social services. The second option broadens the social services requirement to include assisting parents in obtaining social services and requires that the provider follow-up to assure that the services are secured. Only the narrower option is proposed for family day care homes.

For State agencies, one option requires that States inform providers of the availability of social services in the community. A second option requires that States make "arrangements" which "assure" that children receive needed services.

The 1968 FIDCR was interpreted to include a wide range of social service approaches, ranging from information and referral to actual provision of needed social services for children in the program, as well as other family members. The 1968 FIDCR also required trained social workers on the facility staff.

All these requirements presumably include health as well as other social services, and our analysis below includes the costs of health referral and follow-up, as discussed in section III-4 above.

Costs

For purposes of this analysis potential costs are divided into two parts: those costs to the center for helping families obtain social services and

those costs to social services programs of providing the additional services requested.

a. Information, Referral, Assistance, and Follow-up

The primary burden for provision of referral services for children and their families in day care falls on State and local social services networks, not on the day care program. There is no authoritattive estimate of the number or size of the current networks, and the line between referral-type services, casework counseling, and other services is often unclear, but total Federal, State, local, and private resources devoted to referral-type services are certainly in the hundreds of millions annually.

The costs of these options depends on what they mean in practice. We assume that help in referral (e.g., showing a parent a state-provided referral listing or the Yellow pages, or putting a parent in touch with a local referral service) would meet the requirements of option A for providers.

Most centers already provide referral services (see NDCS, table 30), and, for center care, the information and referral option will involve little or no costs over current practice. Lists of health and social services are readily available in most communities. Intake staff, the day care director or other non-caregiver staff could be assigned to responsibility for referral. Referral tasks, at most, involve making telephone calls or writing letters.

For family day care, on the other hand, the information and referral option could well represent an increase in responsibilities. Assuming, however, that over the course of a year the family day care provider spends several hours aiding each of 3 families, at $3 per hour, national costs to 50,000 caregivers would be only about $1 million. (Moreover, this cost might well not represent a "real" increase, if the time were spent during the performance of other functions.)

Option B applies only to centers and can be costed out in a number of ways depending upon the assumptions made about types of assistance provided, staff qualifications needed, and number of families needing assistance.

We do not have any reliable information about how many families go to (or would go to) center staff for information about non-day care services they might need. We can, however, assume a certain staff would be necessary to provide the assistance envisioned by option B, with parents getting slightly more or less service depending on number of requests for use of a fixed resource. We assume that a one-half time person (or an equivalent amount of time from other staff) would be required for the average center with 50 children to provide for a "serious" level of assistance to a substantial proportion of families. (Title XX regulations already mandate information and referral for all families and most welfare families receive substantial referral assistance. This level of effort provides only for families who would otherwise fall "between the cracks".)

The NDCS reported that about 7,000 of about 8,000 FFP centers provided assistance to parents in obtaining welfare aid and/or help in obtaining community services (Volume III, table 159). If in order to meet this requirement, 1,000 centers hired a one half-time social worker at $5,000 per year, the additional annual cost would be $5 million. This would be about a 5% cost increase for these centers.

b. Service Costs

Social services referrals could increase utilization rates of needed social services. Increased utilization rates may increase social services costs at the State and local levels. Because social services are so heavily dependent upon state budgetary decisions, the Department has been unable to compute the potential cost impact of the requirements to the social service system. However, we know that the federal expenditure for all title XX social services cannot go beyond the $2.9 billion ceiling (FY 1979), and it is unlikely that state or local governments would increase spending substantially for this purpose (see the Health analysis, for a major exception). It is also unlikely that these referrals would add significantly to welfare or food stamp budgets. Our cost tables have indicated "NA" (not available) for social services costs because we cannot reasonably project the additional costs, although we anticipate that these costs could be significant if funds were available to meet all potential requests for services.

Benefits

A range of child health, social and special services are currently available in most communities. The high option requirement has the effect of

linking the day care facility to a larger service system to address the total needs of children; an effect which is compatible with other HEW initiatives in the family policy area.

The requirements could contribute to increasing information available to parents about additional services needed by their children. This service is both needed and desired in local communities. The National Child Care Consumer Study (Unco. 1975) found that 77% of the parents interviewed indicated that counseling and referral services should be available that would enable them to get information about qualified persons and agencies providing care for their children. On the other hand, the existing services are so substantial that aggregate benefit increases could be presumed to be small.

The benefits of particular social and welfare services are believed to be large (e.g., prevention of child abuse through counseling of parents; prevention of hunger and malnutrition through Food Stamps), though documentation is very uneven and far too voluminous to review here (e.g., the extensive literature on the extent to which Food Stamps increase food consumption vs freeing up other money for purchase of other goods and services by the poor). To the extent that social services budgets are fixed, increased demand by these day care children and their families will presumably still increase social benefits realized, as social workers "ration" services to those for whom particular interventions can be most effective.

Other Significant Effects

The requirements as drafted attempt to minimize ambiguities which could lead to confusion and enforcement problems. However, the words "assist", "arrange" and "assure" are inherently imprecise. Also, the State agency requirements are limited to children in care, whereas the provider requirements imply services for parents and siblings.

Other Alternatives

The Department considered other alternatives which involved day care providers actually arranging and providing services for children and their families. Both of these alternatives would have placed major responsibilities for social services delivery at the provider level, would have duplicated existing programs, and would have greatly increased the reimbursement rates charged for child day care, perhaps in the hundreds of millions of dollars. Since most family day care providers could not possibly perform these functions, enforcement would have been impracticable and supply effects would have been severe.

On the other hand, the proposed requirement does not preclude the voluntary assumption of such responsibilities. For example, State agencies could contract with centers in rural areas to provide additional social services, or family day care homes could become satellites of a center program or link themselves to a social service agency.

The Department also considered a provision that day care providers report any incidents of child abuse and neglect (CAN). This requirement would

have attempted to coordinate and improve enforcement of the CAN legislation affecting children in day care. A requirement of this sort is difficult to monitor and enforce. Consequently its added benefits are uncertain, particularly since providers are under the same legal (and moral) obligations as any other persons (e.g., teachers) who come into contact with children to report cases of abuse and neglect. On the other hand, the costs would have been negligible.

Sensitivity Analysis

These cost estimates are particularly questionable for the many reasons discussed above—ambiguity of kind of services expected, lack of specific data on present practice, unknown numbers of families who would request assistance, etc. The true cost could easily be one quarter or four times the cost estimate shown.

In addition, there is a potential saving, under the low option, if the 7/8 of centers now providing more intensive services than simple information and referral were to reduce effort. Although in practice it is unlikely that substantial cost reductions would occur, potential savings could be tens of millions annually under the assumptions used for calculating increases.

7. Parent Involvement

Requirement

The proposed regulation presents two alternatives:

1. to require that providers inform parents about the day care program and its policies, provide copies of the HEW regulations, provide parents with opportunities to observe the center and discuss their childrens' needs before enrollment, provide parental access to the children while in care, and regularly exchange information with parents about their children; and

2. for centers only, to provide parents with access to any monitoring or evaluation reports on the center program and copies of application for funds filed with government agencies.

Additionally, the state agency is required to offer parents their choice of day care facility, whenever administratively feasible.

The 1968 FIDCR contained a much more extensive requirement, including parent "involvement" in provider operating "decisions", and advisory committees at program and intermediate administrative agency levels with various oversight powers.

Costs

The parent involvement requirements are not costly. We estimate a national expenditure of approximately $2 million for center care, and another $1 million for family care, if caregiver time to supervise parent activities or talk to parents and some expenses for special events are considered.

These costs are low because, although the regulation proposes requiring parental access to both center and family day care, there are no requirements for extensive programming for parents which would require staff time, facilities, or supplies.

Parental choice of providers implicitly imposes "transaction" (e.g., time and trouble) costs on both States and parents. Given the massive size of the day care market (all of which, including unregulated care, is potentially available to FFP parents), and the time already spent in arranging care, we estimate no added costs due to this requirement.

Overall, costs for parent involvement requirements will be no higher, and may be lower, than at present. They will be considerably less expensive than the present FIDCR provisions, if they were fully enforced (see tables 3 and 4).

Benefits

The parent involvement requirement attempts both to assure continuity between the child's home and the day care environment and to assure that the most important program monitor, the parent, can exercise stewardship, both through free choice of provider and though working with the child. The proposed requirements attempt to enable the parent to be an informed consumer. Additional benefits from these requirements will be small, of course, because providers generally allow and encourage such involvement now; for example, centers generally invite prospective parents to visit and survey the center and use parents as classroom volunteers or fund raisers.

Furthermore, research on child and family services, day care, and experiences with parent participation in Head Start since 1965 have documented success

in terms of child well-being and increased child development where parent involvement focuses on interaction with children; that is, when the parent is an integral part of the developmental experience.[1/]

The benefits of parental involvement accrue to children, parents, program operators and the larger community. Policies which encourage aware and active parent involvement and choice serve as an incentive rather than a disincentive to parental control over their children's lives. The parent involvement requirement establishes the principal that the state is not attempting to usurp parental responsibility for child rearing, but rather supporting parents in their role.

Other Significant Effects

Employment of parents and other community residents is often positively influenced by active parent participation in child care programs.

Other Alternatives

The regulation proposes no options for parental involvement in decision-making on the programs of the day care facility. However, the Department considered an alternative which would have required that day care centers provide parents with the opportunity to be involved in decision-making about general program policy making (e.g., hiring and personnel practices, funding, etc.). The research on this topic generally does not relate to small providers, is anecdotal, and can be read either as supporting such arrangements or as exposing their ineffectuality. The Department

1/ Ira Gordon Studies on Project Head Start and Parent Involvement. See also the US GAO study of parent involvement in the Child and Family Resource Project.

has proposed not to impose a uniform, mandatory requirement applicable to all providers, but to allow for a diversity of governance arrangements.

The regulation does not automatically guarantee parents access to the center at any time of the day, without prior notice. It was decided that the issue ought to be presented to the public for consideration during the 90-day comment period.

The regulation also does not place a responsibility on providers to identify serious barriers to the parent's ability to work with the provider on matters concerning their individual children, such as illiteracy, English speaking problems, etc. For example a requirement could have been proposed which placed some degree of responsibility on the provider for outreach, communicating with parents, aiding them in the parental responsibility where needed, and encouraging their participation in the program. These are common special needs in many low-income communities and communities with concentrations of recent migrants to the United States.

Sensitivity Analysis

Parent involvement is critical to the operation of child care programs outside the child's own home for children of all ages. The proposed regulations set forth a national open door policy which allows flexibility for providers in how they program with and for parents, and encourages parental choice. The costs of parent involvement to day care operations will vary depending upon the extent of importance given to this critical aspect of child care by state agencies as well as local provider and advocacy groups. If extensive staff

time is devoted to these activities, costs will increase commensurately, but it is not known whether the benefit effects would be more or less than proportional.

8. Grouping Composition

a. Centers

Requirements

The proposed regulations present two major options for grouping requirements. Under each option, limits would be set on both maximum group size, and maximum number of children per caregiver (child-staff ratio), by age (see Table 5). Both options are generally less strict than the 1968 FIDCR for child-staff ratios, but create group size limits for the youngest and older age groups, unlike the 1968 FIDCR.

In addition to the limits, the proposed regulations present a number of alternatives for computation (and enforcement) of the limits, including time period (e.g., continuous vs. daily average), number of age pools for scheduling of staffing hours, which staff and volunteers count as caregivers, and staffing requirements for groups with children of mixed ages. Details of these alternatives are explained in the preamble. They essentially determine center flexibility; all alternatives are designed to be easily, objectively measurable and hence enforceable.

Costs

The most important single factor affecting center cost is staffing requirements. Staff salaries comprise about 60% of all center costs; the difference between a staff-child ratio of 1:6 (average present

Table 5. Grouping Requirements for Centers

a. Maximum Group Size 1/

	1968 FIDCR	Average Current Practice in FFP Centers 2/	Option A	Option B
0-6 weeks	None	NA	8 (7-8)	10 (9)
6 wks.-24 mos.	None	11.5	8 (7-8)	10 (9)
24-30 months	None	15.2	8 (7-8)	10 (9)
30-36 months	None	15.2	14 (12-13)	16 (14-15)
36-48 months	(15)	17.9	14 (12-13)	16 (14-15)
48-60 months	(15)	19.5	18 (16)	20 (18)
60-72 months	(20)	20.6	18 (16)	20 (18)
6-10 years	None	21.2	16 (14-15)	18 (16)
10-14 years	None	25.4	20 (18)	State Option

b. Maximum Children per Caregiver (Staff-child ratio)

	1968 FIDCR	Average State Regulations	Average Current Practice in FFP Centers	Option A	Option B
0-6 weeks	1:1	NA	NA	1:4	1:5
6 wks.-24 mos.	1:4	1:6.6		1:4	1:5
24-30 months	1:4	1:9.4		1:4	1:5
30-36 months	1:4	1:9.4		1:7	1:8
36-48 months	1:5	1:11.4		1:7	1:8
48-60 months	1:7	1:13.7		1:9	1:10
60-72 months	1:7	1:16.5		1:9	1:10
6-10 years	1:15	1:18.6		1:16	1:18
10-14 years	1:20	1:19.2		1:20	State Option
Age-weighted average.....	1:6.4	1:12.5	1:5.9	1:7.8	1:8.9

1/ The group size in parenthesis is the actual number of children expected to be in attendance on a given day. The group size outside the parenthesis is the number of children enrolled. The group size for the 1968 FIDCR was monitored and enforced based on actual attendance. The group size for the proposed regulations will be monitored and enforced using the number of hours children are scheduled on the enrollment roster.

2/ From Volume III, table 71, NDCS.

practice) and 1:8 can therefore, other things equal, represent about a one-fourth saving in staff salaries and a 15% saving in cost per child. Conversely, group size limits have very little effect on costs (so long as group sizes are not below maximum number of children per caregiver) in any building with even moderate space flexibility, and the main effect is on space costs (about 10% of all center costs) rather than on staff costs.

Both policy options under consideration for children 30 months to six years of age (the great majority of day care children) will allow more children per staff member and hence reduce cost per child below the level reflected in current government day care reimbursement rates. The reduction in staff-child ratios permitted by these options offers potential for cost reduction if other day care dimensions remain constant (e.g., wage rates, caregiver qualifications, extra services).

When enforcement policy eliminates substandard practices but continues to allow centers which choose to do so to maintain staff levels above the standard 1/ then savings could be about $1.6 million (less than 1%) for option A and $72 million (9%) for option B. If the centers which currently exceed standards in terms of the number of caregivers employed were all to reduce their staff to the minimum requirement (which is most unlikely), the potential cost savings could

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1/ Many centers operate at ratios above the minimum permitted by FIDCR. The average, center level, FIDCR ratio for all ages of children is about 1:6.4. The actual average ratio prevailing in subsidized centers is actually better — 1:5.9.

approach $100 million (more potential savings for States in which compliance with the 1968 FIDCR is high, and an increase in cost per child for States where compliance is low).

Our basis for estimating probable cost reduction is based on calculations from an econometric model developed under the National Day Care Study. As shown in Table 6 on the next page, there are great complexities in cost estimating, and computer simulation is virtually essential to cost out alternatives. This statistical model allows calculation of the staff cost effects of alternative grouping requirements, taking into account several of the variables which influence center staffing decisions. It was programmed to simulate a situation in which all centers with insufficient staff would hire enough to meet requirements and in which some centers with staff above requirement would voluntarily enroll more children or reduce staff. In the model, 59% of centers were complying with the 1968 FIDCR, as contrasted to 68% in the entire NDCS sample when calculated on the same basis (see Table 6).

Benefits

Grouping standards are the components of day care that most directly affect the amount and nature of personal attention and time the caregiver has the opportunity to give the child. Recent research (most notably the National Day Care Study) has shown that smaller group sizes, even at the expense of child-staff ratios, can improve child development over current average practice in centers serving predominantly low income children. This is a finding which is robust over

Table 5 : Comparison of Measures of FIDCR Ratio Compliance Under Alternative Monitoring Guidelines

Method Used to Calculate Compliance with Ratio Requirement	Average Ratio of FTE Children To Required FTE Caregivers (1989 Centers)	Percentage of 1989 Centers in Compliance	Characteristics of Non-Complying 1989 Centers		
			Number of Additional FTE Caregivers Required	Number of FTE Caregivers Currently Employed	Number of FTE Children Currently Enrolled
1. Supply Study: 12% Adjustment for Absences; Compliance measured at center-level; Volunteers counted; Children and caregivers counted on hours-basis (rather than head-count basis). Additional staff required rounded-off to nearest quarter-time staff person (staff-hour deficit of less than 5 hours per week allowed as tolerance).	6.41	68	5,500	15,400	143,800
2. No adjustment for absences; otherwise, the same rules applied as listed for row 1.	5.84	58	9,200	22,400	188,800
3. Monitoring on group-by-group basis, using age of largest age-cohort in group as determinant of which ratio to apply to entire group, otherwise, the same rules applied as listed in row 1.	5.90	58	7,800	20,200	173,400
4. Monitoring on group-by-group basis, using specific ratios for each age-cohort in group to determine required staff for group; otherwise, the same rules applied as listed in row 1.	5.82	58	8,200	20,800	176,800
5. Monitoring on group-by-group basis, using age of youngest child in group as determinant of which ratio to apply to entire group, otherwise, the same rules applied as listed in row 1.	5.53	62	9,900	23,300	192,500
6. Volunteers not counted as satisfying ratio requirement; otherwise, the same rules applied as listed in row 1.	6.41[b]	63[b]	5,800[b]	18,100[b]	151,700[b]
7. Children and staff counted without regard to hours per week (head-count basis); otherwise, the same rules applied as listed in row 1.	6.52[b]	79	3,600[b]	10,600[b]	97,900[b]
8. Additional Staff required rounded up to the next half-time person (no tolerance for even slight deficits between actual and required staff); otherwise, the same rules applied as listed in row 1.	6.41	64	8,300	16,700	150,500
9. Most Stringent Monitoring Guidelines: No adjustment for absences. Monitoring on group-by-group basis with ratio requirement for youngest aged child in group applied to entire group; Volunteers counted[c]; Children and staff counted on an hours-basis; Additional staff required rounded up to next half-time person (no tolerance)	4.78	37	16,800	32,300	247,000

[a] These volunteers are not directly comparable to the other volunteers presented in this table. They were derived from data collected during the fall and winter rounds of telephone interviews. Because they do not account for volunteers during summer months (the other volunteers are annual averages), they do not represent "annual average" measures of ratio, compliance and center characteristics.

[b] Staff, children and the ratio of children to required staff are measured in terms of number of individuals (head-count) rather than in terms of FTE's.

[c] Exclusion of volunteers should have minimized the omissions of the compliance measure biases. Data on volunteer hours in the classroom were available for only two rounds of the survey. (3-year-average measures could not have been calculated since volunteers to be excluded. Since exclusion of volunteers has only a slight effect on compliance measure (compare rows 1 and 6), the divergence from "most stringent" should be a relatively minor

Source: National Day Care Study, Volume II, Table 31

the full range of variation found in current practice, 1/ and applies to a wide number of measures of child "well being" as well as social and intellectual development — "educational" behaviors such as verbalization, reasoning ability, unruly behavior, etc. (See figure 4).

This finding is confirmed, in part, by a recent reanalysis of data on class size in schools (Glass and Smith, "Meta-Analysis of Research on Class Size and Achievement," Educational Evaluation and Policy Analysis, Volume I, No. 1, 1979). Contrary to earlier analyses, which focused primarily on class sizes of between 20 and 40 children, this reanalysis focused equally on sizes of 1 to 20, and found significantly increased scores on standardized achievement tests at lower group sizes.

The probable reasons for these results are as follows. Staff-child ratio is an imperfect indicator of staff attention. In a low ratio situation, an adult must distribute his or her time over a large number of children. In a high ratio situation, caregiver time is distributed over fewer children. But ratio is not always a reliable indicator of staff burden because caregivers do not always divide their time evenly among the children in their care. As the NDCS has demonstrated, large groups tend not to be broken into roughly equal subgroups even when enough staff are present to allow such division. The lead teacher supervises most of the class while aides rarely supervise sizeable groups. Thus, the effective

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1/ The sample did not include very many groups smaller than 12 with ratios more stringent than 1:6 (e.g., 1:5, 1:3, etc.). For preschoolers the NDCS found ratio within the range of 1:5 and 1:11 operating in groups larger than 12 was not as significant as group size.

Figure 6.4: The Relationship between Child Test Score Gains and Group Size

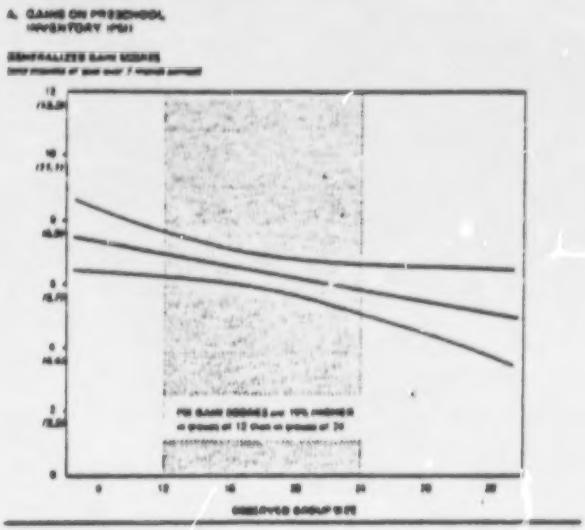

Figure 6.3: The Relationship between Child Behavior and Group Size

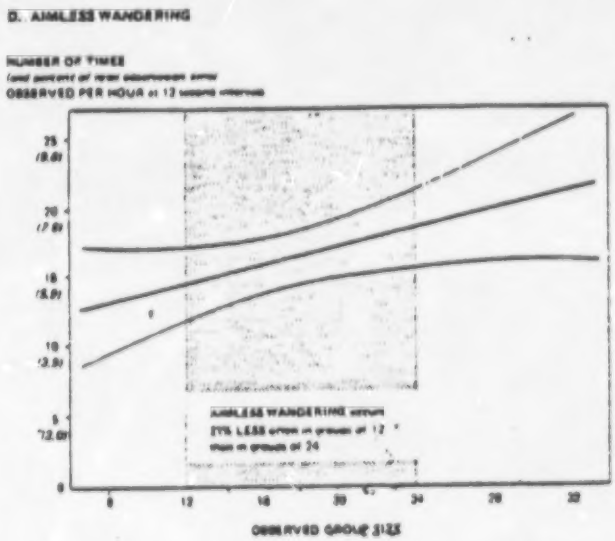

Figure 4: Group Sizes and Child Development

Source: National Day Care Center Study (1979)

Figure 6.4 shows the progressive decline in test score gains that accompanies increasing group size.

Children's gains on the PSI, which has been found to be a predictor of success in school, were higher in centers that maintained smaller groups of children than in centers with larger groups. For example, gains averaged approximately 7.0 points in groups of 12 children, compared to 5.9 points in groups of 24. The difference of 1.1 points represents a 19 percent advantage in growth rate in groups of 12 compared to groups of 24. Since children's gains averaged about 6.5 points over the 7-month period between fall and spring (about .9 points per month), the 1.1 point difference also translates into 1.2 months differential gain over the seven-month period, in groups of 12 compared to groups of 24.

In the Atlanta Public Schools (APS) experiment, a sub-study of the National Day Care Center Study, PSI gains were slightly higher for three-year olds in high ratio classrooms (averaging 1:5.4) than in low ratio classrooms (averaging 1:7.4). Also, natural variations in ratio across the APS classrooms as a group were weakly associated with PSI gains. The more stringent the ratio the higher the gains. The strength of this relationship was substantially less than that found for group size.

PSI gains are large in centers where children are frequently engaged in reflective, innovative behavior. In centers where children are allowed to wander aimlessly uninvolved in tasks-activities, PSI gains are small. This illustrates one link between the many positive child behaviors fostered by reasonable staffing requirements and outcomes on test scores.

staff-child ratio in large groups for lead teachers and their aides is often the total number of children present. In addition, preferences for certain children and active and outgoing children who make demands on a caregiver's time usually result in an inequitable distribution of attention. Thus, especially in a large group where there are many adults and many children, a high staff-child ratio does not necessarily guarantee that each child is getting his or her "fair share" of an adult's time.

This explains why group size exerts more influence on group dynamics, especially on caregiver behavior, than does ratio - why in fact many effects expected for ratio are found instead for group size. The NDCS findings are important in demonstrating that caregivers do not divide their time evenly among all children, and that ratio does not reflect the amount of attention each child would be receiving on the average in a day care setting. But the NDCS analysis of subgroup activity clearly demonstrates the importance of few children to one adult if the goal is to support child growth. Research indicates that <u>quantity</u> of <u>adult</u> attention as well as quality is necessary to support positive child growth. Until the child reaches about 2-1/2, the adult is the mediator who structures the learning environment for the child. The amount of attention one adult can "generate" is finite. Keeping the number of children small is the major way sufficient amounts of adult time can be given to each child. This can be done most surely with higher ratios and/or smaller groups, although good supervision and

caregiver training may also lead caregivers to distribute their time more equitably among children.

The current evidence does not indicate whether, or where, reductions in group size would lead to "diminishing returns" in child development. Options A and B are on a continuum of possible policies of which only two benefit conclusions are unambiguous. First, option A has more beneficial effects than option B, and option B slightly more than average present practice in the centers included in the NDCS study (considerably more for some age groups, about the same for others and less for children 48-72 months). Second, none of these standards are anywhere near the levels of "care" which would actually harm children (as in the case, for example, of children reared in infancy in severely deprived institutional environments). 1/ (The one possible exception is what is a safe ratio for infants and toddlers in case of a fire at the facility?)

Nor do we know the long term effects of any of these alternatives. For example, there is no reliable evidence showing that any particular grouping standard is likely to produce lasting long-term gains. (This same question has arisen in the Head Start program. The programs are not strictly comparable, but Head Start evidence is suggestive — long-term

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1/ It is possible to argue, of course, that any intervention less than the most perfect imaginable "harms" a child as compared to his potential development. This line of argument leads inexorably to notions such as one caregiver for each child, and a manifold increase in cost per child. Since such a policy would mean serving (say) one child instead of ten, for a given resource base, and hence "harming" the other children, it is not clear that it is better. Nonetheless, it is true that neither option A nor option B is as beneficial as other possible policies to the children who will be in day care.

gains are probably present, but at levels considerably lower than short-term gains).

Returning to short-term measures, the scheduled group composition proposed for children under 30 months will support a level of adult and child interaction roughly equal to the 1968 FIDCR. Both options A and B will improve group sizes for the majority of these children as compared to present practice. Under option B, however, the scheduled group size of 10 is higher than the group size of 8 contained in State licensing codes (in those States which regulate group size) and than recommended by some experts for children under 18 months old. For infants, increases in distress as well as other problems were noted in the NDCS when ratios were less stringent than 1:4. This could mean that on days when the group size reaches the ceiling of 10 (a ratio of 1:5) proposed in option B, the setting would become quite stressful for some infants.

Nationally, more than half of two year olds (24-36 months) are now assigned to groups of more than 10 children. The NDCS found that negative behaviors occurred with more frequency for toddlers (ages 18 to 36 months) in groups larger than 10 in which ratio was low (less stringent than 1:5, e.g., 1:6 or 1:7). Overt child distress was greater in low ratio toddler groups and the quality of adult care was poorer. Although both options compare quite favorably to both present practice and the 1968 FIDCR for children aged 24-30 months, the proposed options A (14 children and 2 adults) and B (16 children and 2 adults) for children 30-36 months old is about the same as current practice and less developmental than the 1968 FIDCR would have been, if enforced.

Inherent in grouping by age, regardless of the particular standard chosen, is the problem that when the child reaches the next age, the standard changes. This not only creates cost and potential enforcement problems, but also creates a scheduling problem for those children whose development may lag behind the average for their age group. These tradeoffs are particularly difficult for children in the 30-36 month old category. At present, about one-third of these children are in small groups for two year olds and under, and some of these children are not ready for larger groups.

On balance, option B provides for somewhat smaller group sizes than both current practice and the 1968 FIDCR. Its staff-child ratios are considerably less stringent. Given the NDCS finding that in the ranges under discussion, group sizes exert relatively more influence than staff-child ratios on child development, and considering that option B is a minimum standard which we expect most centers to exceed (as discussed in our cost section above), option B will in practice roughly equal or exceed (depending on age group) both current practice and an enforced 1968 FIDCR. However, for some age groups, and for the minority of centers which will operate at the standard, option B will not be as beneficial as the 1968 FIDCR would have been. Option A is more stringent than option B in all dimensions, and we expect that in practice it will be considerably better than current practice and the 1968 FIDCR for most age groups.

In sum, HEW believes that the results of maintaining staffing requirements in the ranges proposed will establish a level of care which strikes a balance between less stringent requirements which may not be supportive

of the well-being of a substantial number of children served and more stringent requirements which may not add sufficient additional developmental effects, but which would cost substantially more.

For school age children, there is virtually no research which shows the superiority of one group composition over another. No empirical study or expert consensus has been identified that describes the type of day care program or programs — including developmental goals and activities — that are most effective for the school age child. However, based on the NDCS findings on the importance of group size, it is sensible to have some group size requirements rather than have none, as in the 1968 FIDCR.

For all age groups, our cost estimates assume that the majority of centers will exceed the standards proposed under both options A and B. (Otherwise cost reductions would be much higher.) For those providers which presently meet and remain at proposed ratios and group sizes the benefits will remain the same. For those providers which must reduce group size or improve ratio to meet those proposed here, there will be an increase in benefits. For those which presently exceed standards, but take advantage of the proposed requirements to relax both their group sizes and ratio, benefits will decline from their present level. Under option B we estimate this latter category will be small; under option A virtually nonexistent.

Other aspects of the proposed standards may have consequential effects on child development. For example, the proposed option which allows volunteers and non-caregiving staff who provide some direct care to children to count in the ratio, presents an additional problem for children 0 - 30 months. Continuity of care by a few important adults is critical to the development of children in this age category. The proposed option would allow centers to employ a changing number of faces in their nurseries rather than constant care by a few individuals. Continuity of care might be disrupted in some cases, making it difficult for infants-toddlers to form the secure attachments to adults which facilitate later development. The option which stipulates that these individuals can count in the ratio only if they are scheduled to provide care 10 or more hours per week would reduce the frequency of such problems.

In addition, The NDCS recommends that staff-child ratio apply at all times of the day and days of the week. This was prompted by the concern that ratios as low as 1:20 for preschoolers in some centers might exist during the the morning hours when paid teachers were deployed while ratios as high as 1:5 might exist at these same centers in the afternoon hours when volunteers and non-caregiver staff (e.g., student aides, cooks, etc.) would be readily available. In these situations, the average required ratio for the day would be met, but children would be exposed to less developmental situations in the morning. The proposed requirements offer two options: 1) ratio must be met continuously, or 2) on a daily basis. Variability in daily patterns as described above could occur in a few centers under option 2.

Other Significant Effects

The proposed options are much clearer and more enforceable than the 1968 FIDCR. For example, the 1968 FIDCR said that staff-child ratios should not "normally" exceed a certain number, and were not clear on whether the measure involved was number of children enrolled or number present. Also, the 1968 FIDCR had incongruities in the standards: if a group size limit of 15 and a staff-child ratio of 1:7 had to be met simultaneously, then either the "real" group size limit was 14 or the "real" ratio was 3:15 or 1:5.

Other Alternatives

There are an infinite number of combinations and permutations of grouping requirements. The Department considered some which were less strict (e.g., Why not rely entirely on State and licensing codes or average present practice as to staff-child ratios?) and some which were more strict. The Department also considered presenting a staff-child ratio option which replicates the National Life Fire Protection Association Safety Code's staff-child ratios. (See preamble of regulations for discussion.) It is possible, though no evidence exists, that the life safety code presents the maximum number of children which can be safely evacuated at one time by a single adult. This ratio is particularly important to infants and toddlers and has been adopted by some states. A standard which replicates the code would be more expensive than the proposed options for infants and for older children, less expensive for the two through five year old, and have about the same costs per child overall as option B.

For mixed age groups, the proposed requirement states that group size shall be based on the youngest children in the group unless these children constitute less than 20% of the group. If this is the case, the group size for the next highest age category shall apply. This proposed requirement will permit placing a small number of younger children in a large group. One age mixing option that was considered and discarded during the drafting of these requirements stated that "the group size for the youngest child in the group shall apply." This option would be slightly more burdensome and costly than the proposed option. It would provide some protection to the younger children against more stressful situations which can result from larger groups, but may discourage some centers from offering "family-type" age-mixing.

Sensitivity Analysis

The cost estimates for the options presented are based on an econometric model which considered the effect of various policy options. One advantage of such a model is that it simulates many of the factors which interact simultaneously that other calculations neglect or assume are unchanged (constant). The model is based on a sample of 300 centers and its results may well be sensitive to biases in that sample (e.g., a higher percentage of these centers are low cost centers compared to all centers in this country and 41% are out of compliance with the FIDCR compared to 31% nationally.) Adjustments have been made for some of these problems but how successful these adjustments are has not been tested. In addition, the model has not been carefully reviewed and scrutinized by economists to determine its strengths and weaknesses. In some cases data needed to make exact estimates were not

available and proxies had to be used (e.g., data on child age is in whole years yet the model must manipulate children in grouping arrangements using age in months, such as the group size of 14 which applies to 30 to 48 month olds). Small variations in the model may change estimates by tens of millions of dollars. The cost estimates for this section are very critical and must be treated as highly tentative at this time.

On the other hand, the majority of the data used to discuss benefits is taken from the National Day Care Study, the most extensive study done of children in center care. (Over 1,800 children in 64 centers were observed and tested; 1,100 parents and caregivers in over 120 classroom groups were observed and interviewed. In addition, another 54 centers were included in the infant/toddler substudy.) Many outside experts in the field of child development, and social science measurement as well as day care worked with HEW and Abt Associates throughout the study to assure that the design and analysis was as robust as possible. Although HEW analysts and others believe this is an excellent strong study because of its scope, thoroughness, and relevance to these regulations, a critical review by other professionals in the field not directly involved in the study will be necessary to further confirm the validity of the findings and their generalizability.

As with any study of this magnitude, this study had its limitations. The study oversampled the policy relevant population of low income children. For example, half the families earned less than $6,000 (1975-76 dollars), half were single parent households and a quarter

of the families received welfare assistance. Two-thirds of the children in the centers studied were black. These proportions are more than is found in FFP centers on the average. Generalizing from this study to all FFP centers must be done carefully.

The findings on ratio and group size are limited to the range of ratio and group sizes actually observed with sufficient frequency in the study. The range in group size was 12 through 24 and in ratios was 1:6 through 1:12. The study included only a few small groups (12 or fewer) with ratios more stringent than 1:6 (e.g., 1:4) or less stringent than 1:10 (e.g., 1:12) — too few to yield any significant results.

b. Family Day Care Homes

Requirement

The intent of the requirement is to limit the number and age mix of old and young children in care to a level which is reasonable for one or two caregivers to manage. This is done by limiting the number of children to three children if all are under the age of 24 months, to five children if infants and older children are both present, and to six children if all are more than 24 months. In all these cases the caregivers own children under six are included in the group size ceiling. (A parallel set of requirements is included for those group day care homes with up to 12 children).

Costs

The costs for this requirement should not be different from present practice or from a 1968 FIDCR if enforced.

Although the data are sketchy, it appears that the typical regulated family home is caring for about 3 children. The provider has two of her own, one under six years and one school age child, making a total of 5 children in the home. The 3 FFP children would more likely be 3 years or younger or school age than be 4 or 5 year olds (ages when parents often prefer a center or nursery school - environment for their preschool age children). The provider works about 45 hours a week on the average, but often works 55 or 60 hours per week. For hours worked, reimbursements are less than hourly wages of caregivers in centers.

Benefits

The proposed group composition requirements do not differ from the 1968 FIDCR group size requirements as modified by the moratorium with one exception. The option which allows only 3 children under 24 months in a family home, and no other children except the caregiver's own if they are over the age of 6, is much more stringent than the 1968 FIDCR. Little evidence is available about the optimal group size and age mix of children in family day care. Current market practice (average of about 5 children) suggests a group size of 6 will allow meeting the preferences of most parents.

There is an incongruity between the center and family care staffing standards. The requirements as written will allow family care homes to have five children of about 24 months of age (two children under 24 months and three just slightly older than 24 months), or six children just above 24 months. Five children all close to 24 months in age would be a less stringent ratio than is allowed in the proposed option A for

center care, and six children would be less stringent ratio than under option B for center care. (The numbers are double and the problem the same for group homes). It is possible that these ratios (1:5 or 1:6) would present safety problems in evacuation in case of fire and insuring the physical safety of the children when moving to and from outside play areas, particularly for the 20% of caregivers living in multi-unit buildings.

Other Significant Effects

There is a potential enforcement problem because the statement, "the group size at any given time", implies that the grouping requirement must be met continuously. If this is the case, then monitoring and enforcement visits must be made frequently and at different times during the day to ascertain whether the requirements are being met. Family day care is different than center care in that many more part-time children and school age children are in care. A home may meet one requirement in the morning and a second in the afternoon. Enforcing these standards could be both difficult and time consuming.

Other Alternatives

As suggested above, family day care grouping requirements need to be flexible to deal with the part time and school age children in care. The proposed requirement may lack this flexibility, because it limits the number of children to 3, 5, or 6 depending on precise ages. This creates what might be termed "notch" effects, since if one child under the age of 24 months enrolls, two older children would have to be dropped in some situations. Similarly, if one half-time child is enrolled, a full-time child would have to be dropped (or

could not enroll). Unfortunately, no alternative could completely eliminate this problem while rigidly preserving different group sizes for different ages of children. Unlike centers, family day care homes do not have the inherent grouping flexibility which comes increasingly with larger size. The Department's proposals recognize this problem but do not encompass a number of possible grouping variations which could be even more flexible. For example, the Department's proposal does not deal with the problem of part-time children, many of them after-school only, others mornings only, and others some days only. Family day care involves much more part-time care than does center care.

The Department also considered not regulating family day care at this time because of the serious data limitations on the nature and scope of the family day care industry, and the possible damage to this sector from rigorous regulation (see discussions above under Training and Physical Environment, for example). However, the proposed grouping requirements are much clearer than the 1968 FIDCR, and are believed to allow for an economically viable family day care sector while providing protection against possible harm by some providers.

Sensitivity Analysis

HEW will complete an extensive study on family day care homes early next year. Until this is completed, we have no data base to manipulate which can address such questions as the consequences of alternative age mixes and group sizes in family day care homes. It is possible, but currently unclear, that alternatives involving restrictions of group sizes

to three for children below 24 months will reduce supply for these younger children. Reimbursement is generally on a per child basis, and a provider serving only 3 (or 4) children will have only one-half (or two-thirds) the income of a provider serving 6 children.

9. Provider Administration

The regulations package does not include a requirement in this area. Implicitly, however, it assumes that each program keeps records to show it is complying with the requirements that involve recordkeeping (e.g., grouping).

Administration is considered in the regulatory analysis because it is the second largest item of operator costs, about 15% of the total day care center program budget. It is a significant but smaller item for family care (see tables 3 and 4).

This aspect of the program operation includes director's salary, recruitment and hiring of caregivers, specialists and other program persons; record-keeping, admissions procedures, written information about the program, various aspects of advertising the program and mailings, handling staff disputes, parent requests, telephones, office equipment, and general management of the total program. There are also a number of hidden costs in the adminstrative line item; for example, transportation for staff and children and special events.

We estimate that the other requirements will have no consequential impact on administrative costs. Records are already kept for reimbursement purposes, and the proposed requirements seek to minimize red tape (see, for example, discussions of Program of Activities and Nutrition). The 1968 FIDCR, however, would have imposed substantial administrative costs, including a "self-evaluation" requirement which could have cost $16 million annually, if enforced. Numerous HEW evaluation studies have

shown that grantee self-evaluation requirements, particularly for small providers, are sometimes invaluable but more generally either ignored in practice or generating wasteful, invalid research unused by grantees.

Many people believe that the director may be the single most important factor in providing quality child care. The Department considered alternatives related to director qualifications and decided to leave that to State discretion.

About 75% of the centers providing Federally funded care are non-profit; the others are profit-making enterprises. Because of their legal status they incur different costs for similar components. For example, only non-profit centers can have their food costs subsidized by the Department of Agriculture's Child Food Program. Profit-making centers try to earn a return on investment for the entrepreneur. When two centers, one profit and one non-profit, deliver comparable services and receive identical reimbursement from the State, they will therefore allocate their resources somewhat differently. This analysis has not attempted to disentagle these differences and does not include a specific set of estimates for profits either under provider administration or elsewhere. For one thing, what otherwise might be lower costs in non-profit centers may be spent on higher wages, extra services, or perhaps simply wasted. Moreover, what is commonly termed "profit" is undoubtedly included, to a large extent, in our cost estimates for physical facilities (rent) and for administrative costs (director's salary).

State Administration

1. Introduction

Title XX provides States with a great deal of latitude and authority to plan and deliver social services to populations which they see as being most in need. Decisions made by State governors, administrative officials, and legislatures, create a varied national picture when one looks across all States and compares State practices.

For example, horizontally at the State level, while a single State agency is responsible for administering Title XX services, day care services may be administered by the welfare agency, education agency, health agency or office for children. Licensing and monitoring may be in or separated from the same agencies responsible for casework and services. On the other hand, vertically, some States administer the entire system including having State employees at local levels responsible for day care services. Other States delegate responsibility to county governments (or city governments) or to "umbrella agencies" that specialize in delivering day care services for the particular district. Fire safety, building safety, and sanitation almost always come under the jurisdiction of local agencies who have power to add local restrictions to State day care requirements. This system (or lack of system) is for the most part beyond the direct control of HEW or the Congress.

In general, the new regulations would not add new State administrative requirements which are not already required by present title XX regulations. They would, however, attempt to clarify State agency

responsibilities and distinguish them from provider responsibilities. The administrative functions required by the regulations can be summarized as follows:

quality assurance - licensing, certification to provide title XX services, registration of family day care homes, monitoring compliance, enforcement, etc.

technical assistance - helping providers (and parents) understand the requirements and comply with them. (This also includes working with other jurisdictions to assure understanding and enforcement of requirements.)

coordination of services - developing and assuring that the health and other social services needed (and required by the regulations) by the day children and their families are provided, casework management, etc.

training - organizing, conducting, and in some cases purchasing training for day care providers.

general administration - planning, policy making, supervising, etc.

There are no reliable estimates of the present costs of State and local government administration. Even if an attempt were made to account for the costs in all the States, there would be significant judgmental differences about which direct and indirect costs of State and local government should be attributed to these regulations. As a result, it is virtually impossible to estimate the cost increases from present practice to a situation where the proposed administrative requirement were fully enforced.

Given these important caveats, an attempt has been made to estimate the costs of the functions mentioned above which would be incurred to comply with the intent of the regulations for a hypothetical State serving 13,000 children (9000 in centers, 2000 in family day care, and 2000 in in-home care). 1/ We conclude that it would cost between $3 and $4 million, or about $230 to $300 per child, to monitor, enforce, provide technical assistance, coordinate social/health services, and train providers and administrative staff. Percentages related to these functions are approximately:

quality assurance	- 15%
technical assistance	- 14%
coordination of services	- 37%
training	- 22%
general administration	- 12%

Extrapolated nationally, these figures suggest State costs of $150 to $200 million (which, less deductions for coordination of health services, training, and regulation of in-home care, is consistent with the $100 million base cost estimate given in table 2.) While the figures for this hypothetical State are subject to a great deal of caution, and although particular States will vary significantly from these estimates because of their administrative configuration, the relative cost of the different functions is instructive. Coordination of the health and social services is likely to be most expensive, followed by training and technical assistance. The cost of assuring compliance (licensing, certifying, and monitoring) with the regulations is less than one-fifth of the total.

1/ HEW staff reanalysis of Present and Projected Management Costs of Title XX FIDCR, REAP Associates, Inc., 1977.

The REAP study investigated a sample of 10 States. It found that some States were carrying out these functions for the most part (high compliance States) and a smaller number of States were far short of expectations (low compliance States). This study suggests a clear difference between high-, medium-, and low- FIDCR-compliance States in their rates of current administrative expenditure and the increases they face in order to implement and enforce the Federal regulation fully. High-compliance States generally face small increases as a percent of present expenditures (10%); middle-compliance States face large increases (100%); and low-compliance States face enormous relative increases (over 1,000%) over a very small base. For the nation as a whole we do not know how many States fall in each of these categories, but our best estimate is that about 10-15 are low-compliance States.

For high-compliance States, most of the projected increase occurs in the licensing/monitoring area, and particularly within licensing/ monitoring of family day care homes. This function is only minimally performed by all of the sample States.

Among the middle-compliance States, projected cost increases are spread across all functions, but are largest for training and technical assistance (possibly double or triple their current expenditures). Increases in licensing and monitoring costs are also significantly above present levels. In mid-compliance States it is the general lack of monitoring rather than licensing which causes the increased costs within the enforcement function.

Low-compliance States face cost increases in all administrative areas. Depending on the size of the State population and investment in day care this may range from one or two hundred thousand dollars in smaller states

to nearly a million dollars in at least one of the larger States. Unlike high- and middle-compliance States, lack of adequate licensing procedures contribute significantly to the increase in costs in low-compliance States.

Administrative costs per child for family day care may run 3 times as much as for day care centers (REAP).

Overall, the costs of implementing the general management functions, such as training and technical assistance, are far higher than the costs associated with enforcing (certifying and monitoring) the FIDCR standards at the provider level.

The individual facility requirements contain a number of technical assistance provisions; for example, the nutrition provision requires the State agency to make a nutritionist available to the facility. The REAP study found that technical assistance is often combined with monitoring activities and with training activities. The figures discussed above include costs of technical assistance.

We estimate that State costs for these functions and likely to rise between $5 and $10 million. The increases are likely to be concentrated in 10-15 States. While it would seem unlikely that State legislatures would approve massive budget increases for administrative staff, given the present concern about government expenditures and Proposition 13 type initiatives, these increases do seem supportable. It is unlikely that every State will move rapidly to comply with all State agency requirements, but our estimates, as in the remainder of the analysis, assume essentially complete compliance.

2. Monitoring

Requirement

The State agency must determine compliance with all requirements at least annually for each provider. This requirement does not necessarily mean that this determination must be made by visiting the facility, and a State agency could comply by reviewing certain records submitted by the facility. For centers, the proposed requirement would involve "licensing"; for family day care "registration" would be an allowable approach.

An Option B is presented which requires the State agency to make an on-site inspection whenever there are complaints or other reasons to believe the facility fails to comply. In effect, parents would be a source of monitoring.

The 1968 FIDCR did not contain specific monitoring requirements, but implied a system similar to that proposed.

Cost

It is estimated that it takes about 37 hours to license a center and make the initial determination that a center can satisfy the Federal and State requirements (REAP, Inc.). About 14 hours are spent at the facility, 4 hours in travel, and 19 hours preparing for the visit, filling out reports after the visit, and other indirect time. Subsequent periodic on-site monitoring to assist the facility to continue compliance takes about 16 hours per center per year. State staff who perform these functions earn in the neighborhood of $14 to $15 thousand annually (including some indirect overhead costs), and the cost per center is therefore about $280 for initial licensing and $120 for annual on-site monitoring.

On-site inspection and monitoring of a family day care home takes about one-half the hours (cost) as for centers. Because on average there are about one-tenth as many children in family day care homes as in centers, the costs per child are about 5 times as high ($12.00/child compared to $2.50/child for annual monitoring). Also, there is generally more turnover of family day care providers than centers, so that relative costs are even higher because of the more frequent first time costs.

Nationally, these estimates mean that it would cost about $1 million to annually monitor 8,000 centers and $3 million to monitor 50,000 family day care providers.

Evidence currently available to the Department indicates that virtually all centers are licensed, except when excluded by State law (church affiliated, schools, etc.). The National Day Care study reported that the average subsisized center was visited between 3 and 4 times per year by licensing staff and an additional 5 times by health and fire personnel. State averages for licensing visits ranged from a low of one visit per year to almost 8 per year (NDSC). This requirement should not generally add any additional burden to what is presently required of the States by the 1968 FIDCR, and much of which is already common practice.

Determining compliance by reviewing records submitted by the facility without visiting it could save costs and time, although the provider might have to keep more records and spend more time preparing the documents. This type of compliance determination, however, may not be as effective.

Monitoring of family day care providers is not currently as common a practice as for centers. Although only 5 to 20 percent of the total family day care market is regulated (licensed, registered, approved, etc.), it is believed that a higher percentage of the FFP family day care is monitored, probably 25-50 percent. It is therefore likely that the $3 million annual cost of monitoring of all family day care providers might involve increases of $1 or $2 million in costs to State agencies.

States that use the registration procedure for family day care, one which is self reporting with spot checking, could have lower unit costs for "licensing" and monitoring. Registration was generally considered by HEW staff to be in violation of the 1968 FIDCR provisions. However, registration is an acceptable form of provider regulation under the proposed rules.

Benefits

The benefits to children from monitoring the facility are impossible to calculate. Like enforcement of all laws, though, it helps establish the credibility of the law with those who would normally be law-abiding. It helps those at the borderline to maintain compliance, or come into compliance, through counseling and technical assistance. It can help weed out those few providers who would jeopardize the children by failing to comply with minimal standards.

3. Availability of Federal Financial Participation (FFP) Requirement

This provision reiterates the title XX law that says no payment may be made for day care which does not meet the HEW regulations. It does modify past

requirements somewhat by allowing the opportunity for corrective action, within reasonable time, of violations. The provider must present a corrective action plan for State agency acceptance and the agency must monitor to assure the plan is reasonable and being carried out.

Likewise, States can present corrective action plans for HEW acceptance, when they (States) are not in compliance with State agency requirements.

Costs

All of the estimates in this regulatory analysis of additional costs have been predicated on full enforcement and full compliance. When these regulations are signed and take affect, HEW is committed to enforce them. While our calculations may over estimate immediate or eventual compliance, the enforcement of this FFP provision will mean that overpayments may be retrieved.

Costs of providers preparing corrective action plans and State agency monitoring them should be minimal and generally part of standard monitoring practices in many States, but certainly not all. Total costs of the extra hours and extra trips to facilities to monitor the plan should cost under $1 million. (The time and travel, to some extent is already built into the estimated costs for the monitoring provision.)

The implications of HEW monitoring State corrective action plans is another matter. The actual costs of the State and Federal time to prepare and review the plans are certainly under $1 million. However, there is no present system established to perform this function, particularly at the Federal level. Most Regional Offices do not have day care specialists working in

the title XX agency (Administration for Public Services, APS), even on a part time basis. Including the specialists in the Administration for Children, Youth, and Families, there still is not, generally, a full-time day care specialist in the HEW Regional Offices.

Monitoring results and other information indicate that probably every State has problems or potential problems which could necessitate corrective action plans. HEW has neither the personnel nor the system at this time to adequately perform the functions anticipated by this requirement. Total annual costs of such a system would be unlikely to exceed $2 million annually.

Benefits

To the best of our knowledge, no FFP sanctions taken against States by HEW for past violations of day care regulations have resulted in actual monetary penalties. There is no data on the extent to which States have withdrawn payments from providers or taken action to retrieve payments made to providers who were in violation of the FIDCR, but such action has undoubtedly been minimal in most States. The chief benefit of the proposed system, therefore, is its prospective credibility and increased likelihood of achieving improvements — i.e. actually reducing the number of providers having uncorrected problems.

The corrective action plan provision can mitigate some of the potential problems that have been associated with the "all or none" FFP sanction. Analysts of the history of FIDCR and the title XX legislation believe that the FFP provision of the law as much as anything forced the issue of the FIDCR's appropriateness, the moratorium on child staff ratios,

and these revisions to the day care regulations. However, most analysts of regulatory administration believe that a strict interpretation of the FFP provision is not conducive to actual effectiveness in enforcement. The corrective action planning provision, if wisely used, should benefit the overall upgrading of day care quality and minimize dysfunctional friction between facilities and State agencies and between State agencies and HEW.

Other Alternatives

HEW is constrained by law from anything but an FFP provision. Refer to the FIDCR Appropriateness Report, Chapter IV, for further discussion on this issue.

4. Rates of Payment

Requirement

This provision would require the State agency to reasonably take into account the costs of meeting the requirements when establishing rates of payment to providers.

Costs

Whatever provider costs that might be attributable to this requirement are included in the estimates of specific facility provisions, since those estimates assume full cost.

It should be noted, however, that full costs need not always imply full reimbursement. Accounting practices often do not fully take into consideration the extra hours that directors and caregivers give to the children. Though

these sorts of "costs" have been priced into these cost estimates because they are costs to someone, they will not necessarily be reimbursed, even when reasonable reimbursement rates are paid. For example, it is a value judgment, and typically not standard practice, whether caregivers who attend training sessions in the evening or or weekends should be paid wages (or even overtime) for their time.

An equally controversial issue is the rate of reimbursement for family day care providers' time and labor. Although, legally, the minimum wage law does not apply, many people believe that these caregivers should receive a reasonable wage for the time they spend caring for children. and that some of them are being exploited. Very few people believe that the 50 cents or 1 dollar an hour that some are making is a reasonable wage. How their time should be priced and whether it should be related to the number of children they care for is a very controversial, ethical, and sometimes technical issue.

A substantial number of complaints and anecdotal reports indicate that some significant number of States are not paying reasonable rates of reimbursement. On the one hand, there are instances of paying for children who are no longer enrolled or infrequently attending or of paying for significantly more staff than are required by regulation. (Paying for 15 staff when only 9 are needed to meet the requirements may be considered "unreasonable" even though good quality care is being provided and all the staff are productively engaged.) On the other hand, rates of reimbursement are established by the State appropriation process, and are often related to amount of money available and number of children previously

served rather than on any specific analysis of the cost of providing the day care service. At the national level these over and under payments may balance out. However, we can not assume that savings from States who crack down on over payments will flow to States who under pay.

The administering costs of operating a responsive, cost based, reimbursement system are not trivial. Many States are now struggling to develop or improve their title XX reimbursement systems. The costs of the total administration of the contract can include determination of rate, submittal of claims, processing claims, and verifying the accuracy of claims. These costs should also include the provider time to prepare and document the claims. We have not added the additional costs of improving State reimbursement systems to the costs of this regulation.

Benefits

It is presumed that fairer and more reasonable reimbursement practices will lead to higher compliance and less waste.

Other Alternatives

This requirement says that the agency must "take into account the costs of meeting this requirement." It leaves a great deal of latitude to the States. The Department has considered, but rejected at this time, a more structured requirement which might have put upper and lower bounds on the hourly costs for child care which would be considered as reasonable. This approach is used in some programs, such as Medicare. Such an approach might help assure that States do not force providers to under comply because of low statewide rates. It might also prevent States from using Federal funds to pay for

unnecessarily high cost care. A cost limit standard such as this is difficult to devise in a fashion which works for all regions of the county and all kinds of day care.

5. Waiver

Requirement

The State agency may waive the grouping requirement for day care centers where not more than 10 percent of the children are wholly or partially reimbursed by the State agency. Previously this requirement was 20 percent, or 5 children, whichever was less.

Costs

Slightly under 20 percent of the centers were waiverable under the previous provision. About 10 percent (i.e., 800 centers) would be waiverable under the new provision. It is not known to what extent this provision was used or would be used in the future. Although it is not known to what extent States or providers might change enrollment patterns in order to avoid the proposed grouping requirement, it can reasonably be supposed that the proposed regulations reduce incentives to do so considerably from the 1968 FIDCR.

The cost estimates in the grouping section assumed that all FFP centers would adjust to the new requirements and that none would be waived. Obviously, to the extent grouping requirements are waived, the cost estimates for compliance are overstated.

Benefits

This provision is intended to allow some flexibility in areas where there may not be much choice of day care facilities and FFP children may be a small minority of potential customers; for example, rural areas. The alternative,

in these cases, may be "inferior" care or no available care at all.

6. Future Review of Day Care Regulations

Requirement

This provision provides for public review and comment on the effectiveness of the regulations. This formal review period will be 3 or 4 years after publishing this rulemaking.

Costs

No significant costs have been attributed to this provision.

Benefits

This provision is intended to promote more effective and responsive regulations, by assuring that they are periodically reviewed in a formal way, in addition to the normal comments from the public which are often received.

7. Effective Date

Requirement

This requirement states that all requirements take effect six months after final publication, except the following which take effect 12 months after publication:

Centers - Training

Family Day Care - Training

- Health and Safety, referral to health services

- Social Services, referral

Costs

This requirement does not affect the eventual cost of the regulations. It does phase the expected increases over several fiscal years.

Assuming that the regulation is made final in December, 1979, we estimate that costs will follow roughly the following pattern: low options, -$4 million in FY 1980, -$5 million in FY 1981, and -$2 million in FY 1982; high options -$19 million in FY 1980, +$91 million in FY 1981, and +$96 million in FY 1982.

Benefits

Whatever benefits that will accrue to the children from the particular requirements will be deferred somewhat. However, this requirement has attempted to build in flexibility to enable States and providers to absorb changes and ease the transition to compliance with the new regulation.

8. State Agency Advisory Council

Requirement

The State agency shall establish a day care advisory council to advise on the interpretation of HEW day care requirements for center and family day care.

Title IV-B, Child Welfare Services, also requires an advisory council, when the State provides child welfare related day care. States, where such councils already exist, would be expected to use them rather than establish a duplicative group, unless there were good reasons for a second council.

Costs

The costs and burdens of this requirement are not intended to be large, less than a million dollars, nationally. Councils like this, of course, can take on a life of their own and be very expensive, time consuming endeavors. At the other extreme are pro forma councils which only occasionally meet to satisfy the letter of the law. Councils of 10 or 15 people that meet two to

four times a year to share their views with State agency people intent on listening to their concerns could cost $10-20 thousand per year per State.

Benefits

These councils, like all advisory councils, are likely to be of mixed effectiveness. Better communication and understanding often result from these activities. Where parents and consumers groups are represented on the councils, they establish the principle of citizen/consumer impact and awareness. In addition, useful questions and suggestions can often be accumulated and transmitted to HEW for its consideration when revising the requirements. However, direct benefits to the children would be difficult to prove.

9. Federal Enforcement

Requirement

None explicit (the Federal government does not regulate itself through rules such as this).

Costs

The cost to HEW of administering and enforcing the new regulations must also be considered. For the most part Federal activities will include providing guidance and interpretations to States, reviewing State plans for corrective action, spot checking State monitoring and enforcement, and dissemination of research, training, and technical assistance materials.

Implementation of these regulations will require staffing and commitment from HEW heretofore not present. It appears that at least one fulltime person in each Regional Office will be needed, plus a few part-time

people on temporary assignment when monitoring visits are made to the States. During the first year or two a modest estimate would be two full-time people in Regional Offices plus two full-time people in the central office to coordinate interpretation and enforcement of the regulations plus two to four people to organize research, training, technical assistance, dissemination of materials and other activities to assist State and local people. Approximately 25 Federal staff would cost about $750,000. At least one trip to each State for a week by a group of three of four reviewers would cost an additional $50,000 to $100,000 in travel funds. Clerical staff might add another $100,000 to $200,000 . Assuming that an average of $1 million a year would be spent for Federal evaluation (a small fraction of 1% of Federal costs involved), total annual Federal costs might be about $2 million. Virtually all of this cost would be an increase over the current, minimal level of effort.

Benefits

It can reasonably be assumed that benefits could be substantial. For one thing, the proposed regulation's effects all depend directly or indirectly on Federal enforcement. For another, the very research and analysis that led to the corrections now proposed to the 1968 FIDCR were themselves the products of Federal effort. There is no reason to think that these proposed regulations will be immutable or perfect. Had the prior Federal effort been more pronounced revisions such as these could have been proposed years ago, with commensurate benefits to the children involved.

V. OTHER ISSUES AND CONSIDERATIONS

1. Long Term Supply and Demand

Even though day care covered by these regulations is less than one fifth of total day care expenditures, these regulations might have a profound effect on the day care market.

Over the last ten years State licensing codes and day care services have for the most part moved in a direction envisioned by the drafters of the 1968 FIDCR. These new regulations, based as they are on the most recent day care and child development research, are likely to continue to influence the overall day care market in both intended and unintended ways.

The continuing increase in two-worker families, and in the population of "prime" child-bearing age, indicate that there will be more and more families using day care in the 1980's. The purpose of these regulations is to assure that those whose day care is funded with Federal dollars, in particular, and the fee paying parent, in general, can find safe, nuturing arrangements for their children. The regulations attempt to remain neutral as to whether the parents should choose family day care, in-home day care, or day care centers. The in-home market is virtually unregulated, family day care only partially regulated, and center care almost entirely regulated. It is difficult to predict how these proposed requirements will affect the advantages or costs of one form of care compared to the others.

However, if one assumes that these requirements are fully enforced for day care centers and family day care, these two modes of care are likely to be very comparable in providing developmental experiences and supplemental services for all children at similar costs. Family day care will be less likely to be stereotyped as cheaper than center care once equivalent services are being provided.

Another major unknown is to what degree present concerns about the low wages paid to caregivers will lead to improvements. Wages in the day care "industry" are very low. Two-thirds of day care center caregivers earn annual wages below the poverty line for a family of four. Many child care experts believe the wages paid family day care providers, all things considered, are even worse. Training and formal regulations may increase caregiver success in obtaining higher incomes and prestige.

It is possible that, in later years, these regulations will be extended to cover more Federally-financed care, or that some States will apply them to privately-financed care.

We cannot at this time predict in any precise way these influences. It is probably safe to say that in those States which regulate at or near the policies established in these regulations, no dramatic changes in costs, supply, or parent choice will occur. Put another way, these regulations would not force day care into a two-tier mode, with a small minority in expensive, intensively "developmental" center care, and the

large majority in cheaper, "custodial" family care. Nor would these regulations substantially disadvantage or restrict the supply of family care. Beyond these extremes avoided, long term effects will depend primarily on parent, center, and State choices.

2. Parent, Provider, and State Choice

The factors that affect choice of one day care arrangement over another, or whether to use day care at all, are related to convenience of location and of hours of operations, warmth of the caregiver, nature of the developmental programs, costs, work requirements in welfare programs, parental choice as to single or dual earner families and other tangible and intangible factors. Studies of the demand for day care conclude that while there are different patterns of choice among different groups (low income, educated, etc.) and among different States agencies, it is still not possible to accurately predict what choices will be made, when certain aspects of care are changed by regulations. The relationships between "measured" quality, perceived quality, and costs are unclear.

Many day care centers now operate above State licensing codes and the 1968 FIDCR standards. Some States may choose to impose more costly standards, and some parents to use "better" arrangements. Even a relaxed standard may not result in lower costs in the real world. Where we make a requirement less stringent we expect some combination of more children, other services, better pay, etc. is likely, and total spending on day care may be affected very little. On the other hand, where we project

cost increases, some States will resist or only selectively enforce, or may not change reimbursement rates, and costs may rise less than projected. One of the major uncertainties in projecting future costs is what State reimbursement practices are likely to be. Many States establish what they will pay for care on the basis of the number of children served and the budget allocations given by their State legislatures. Sometimes these rates are not sufficient to pay for the level of care required by their State requirements or the Federal day care regulations. Compliance with these regulations and the associated costs not only depend on the intent and good will of the providers and agencies responsible for administering them but also on the State legislatures (and to some degree the U.S. Congress) who, faced with a number of competing pressures, must allocate scarce budgetary resources.

4. Financing Day Care

Most but not all of the cost of day care is contained in provider budgets, and much of what is in provider budgets is not reimbursed by government. (See Table 1 in Section II above.) Ultimately, of course, all costs are paid by consumers, directly or as taxpayers, and reduce consumer ability to spend on other goods and services.

Figure 5 on the next page shows our estimate of the likely sources of financing, broken out by program source. The largest single portion of costs is not borne by government at all, but by private parties. This includes not only day care fees, for non-FFP children, but also estimates

of uncompensated caregiver time, volunteers, and private payments for medical costs of these children. Direct reimbursement to providers is primarily through title XX of the Social Security Act and the WIN program.

In addition, Medicaid (including EPSDT) and other health programs (such as Community Health Centers and Maternal and Child Health) pay for the majority of health care for these children. Figure 6 shows how these sources break out in terms of financing by level of government (e.g., allocating about half of Medicaid spending to the Federal budget and about half to State/local budgets).

Neither of these tables includes an estimate for welfare payments, social social services, education, or other public spending on these children. The only one of these omissions of consequence to the proposed regulations is social services (see discussion below).

If all of these sources of funding were "open-ended', Figures 5 and 6 also show what programs and levels of government would bear the cost increases associated with full implementation of the high options proposed. For example, Figure 5 shows about a $50 million increase in title XX and WIN spending, and Figure 6 assumes that the Federal government would increase its title XX appropriation, at the existing 75% matching rate. In fact, only private payments and Medicaid are "open-ended" in the budgetary sense. As a consequence, in the short run, service to day care children in some health or social services programs may mean servicing fewer other children, and increased

Figure 5. Cost Burdens to Title XX, Medicaid, Other Programs, and Private Individuals (1977 dollars in millions)

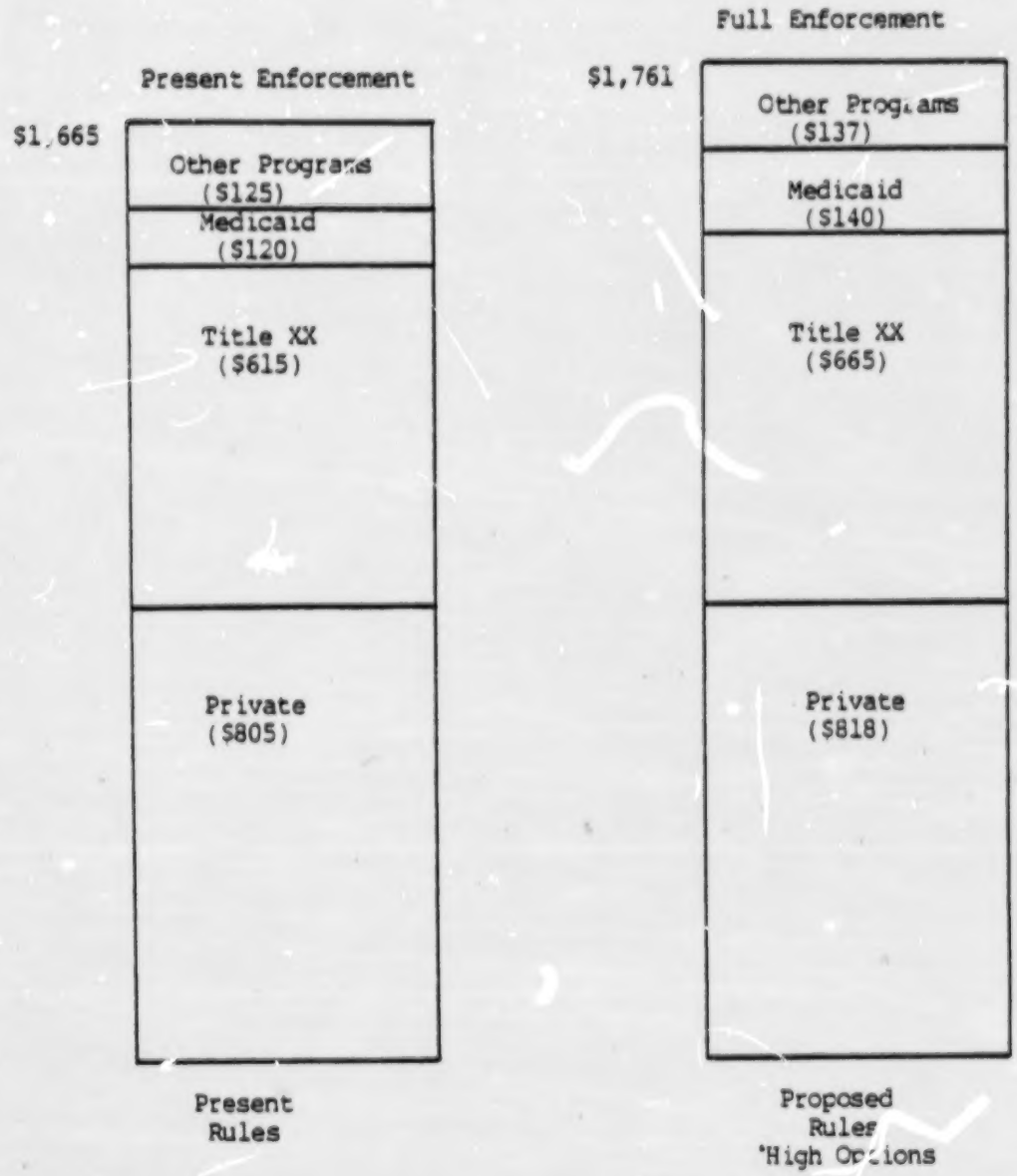
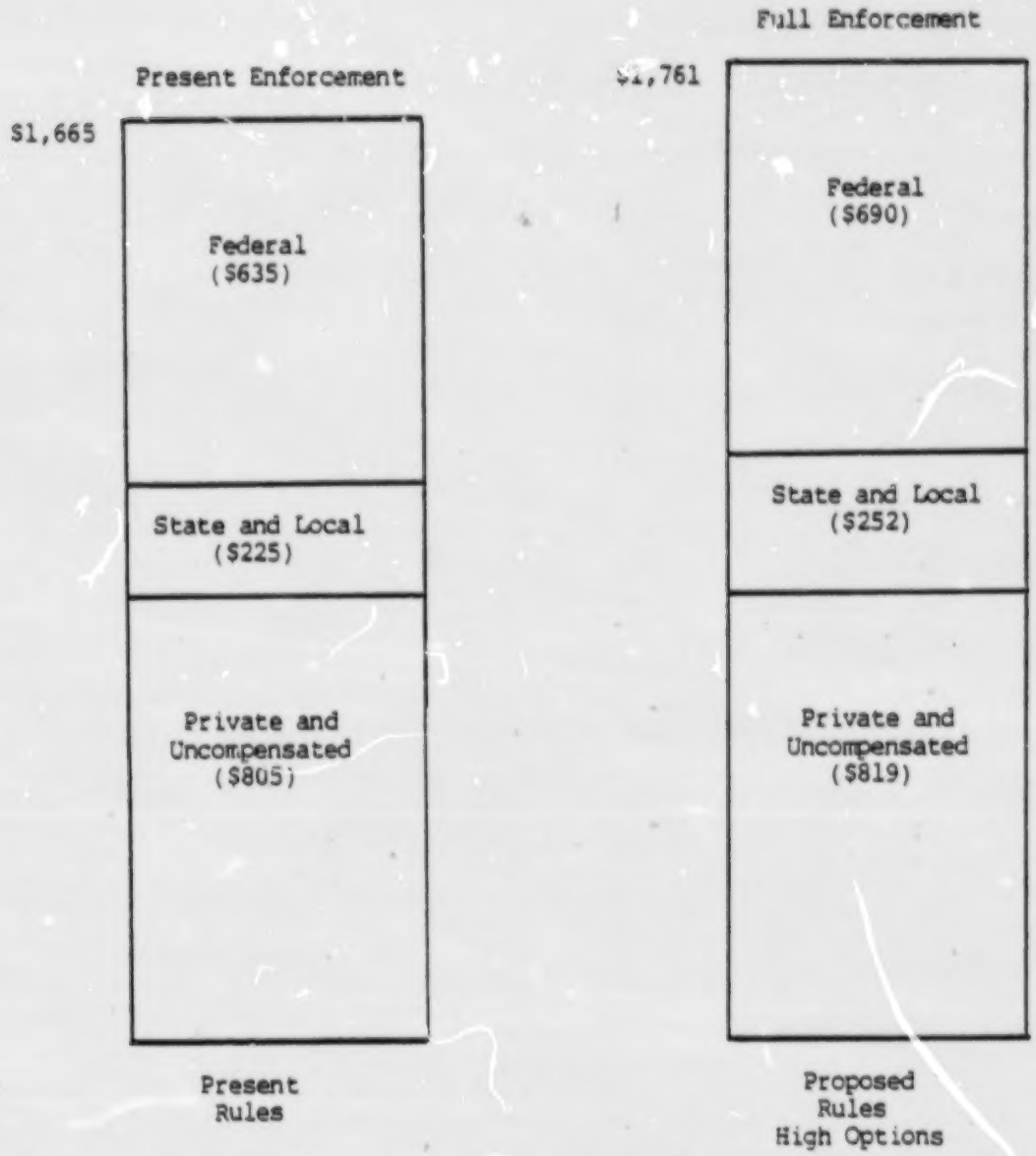


Figure 6. Cost Burdens to the Federal Government, State and Local Government, and Private Individuals (1977 dollars in millions)



spending on day care reimbursements under title XX may mean spending less on other social services, or providing day care for fewer children at the same budget for day care.

In addition, any increases in social services for these children and their families generated by the proposed referral and follow-up requirements may, because the relevant budgets are generally "closed-end", largely be offset by reduced services to others. These potential offsetting reductions in other services are in part a "cost" of these proposed regulations. To the extent that social workers and others involved in making choices as to which persons receive which services exercise appropriate judgment in determining which persons are most likely to benefit from particular services, this cost will be minimal.

In any event, the relative increases involved are small enough (e.g., about $25 million increase in State/local spending in FY 1982 and later years), compared even to the $2.9 billion Federal share of the title XX budget alone, that both budgetary pressure and displacement effects will be negligible in most States. In the longer run (past FY 1982), normal budgetary processes will provide ample opportunity to make informed decisions on spending priorities, including subsidizing more or fewer day care children, without these cost increases forcing draconian choices.

5. Comparison with Privately Purchased Day Care.

This regulatory analysis has compared the day care costs of the proposed regulations if fully enforced to the costs of the present regulations as enforced. It takes as a given that there will be Federal regulations. If one wished to compare the costs and benefits of having Federal regulations at all, a logical comparison might be between day care receiving some or all of its funds from government sources (FFP) with day care receiving all of its funds from parents (non-FFP). Differences could be interpreted as being the result of day care regulations. There are significant cost differences between FFP and non-FFP centers. It is a mistake, however, to attribute all the difference to the day care regulations. In fact, State procurement policy, degree of unionism, legal status (profit, non-profit), and parent preferences all are significant contributors to this difference. (For more detailed discussion of this topic please refer to the FIDCR Appropriateness Report, Chapter 3.)

When comparing average costs per child for different types of centers (FFP/Non-FFP, Profit/non-Profit) often important cost items are omitted; for example, proprietors' time and management skills (profit); donated labor, space, and equipment; and labor paid by outside agencies. When these adjustments are made to the center data from the National Day

Care Study we obtain the following estimates (1976-1977 prices) for annual per child costs:

Profit, non-FFP	-	$1400/yr.
Non-profit, non-FFP	-	$1550/yr.
Profit, FFP	-	$1600/yr.
Non-Profit, FFP	-	$2500/yr.

Not only is it misleading to attribute these differences to presence or absence of Federal regulation; it is misleading to say that one form of care is cheaper (or more expensive) than the other. They deliver different services to their clients. For example, FFP centers are more likely than non-FFP centers to provide transportation, serve more than one meal, provide more social services and have more staff. Differences in wage rates paid to caregiving staff are also a major factor in these differences.

In sum, one should not compare fees for non-FFP centers with the fees for FFP centers and attribute the all differences to Federal day care regulations, although the 1968 FIDCR undoubtedly contributed in part to these differences.

6. Separation and Integration of Children

There is some conjecture that two day care markets may exist; one serving subsidized children at relatively high costs, and a second, lower cost market serving non-subsidized families.

In most cases FFP eligibility is conditioned on income and welfare status. Since income and race are somewhat correlated, it might be expected that if separation of children by FFP status exists separation by income and race will occur.

Other things being equal, a dual child care system in which subsidized and non-subsidized children are served in separate facilities seems undesirable. Therefore, title XX or other day care policies that unnecessarily foster a separation of these children, or that fail to promote their integration, are undesirable.

Separation of FFP and non-FFP children has several potentially negative consequences. Separation by FFP status means that the opportunity of children to mingle with children of another race, economic status, or family type is limited. It can also mean that neighbors of only slightly different economic status are not able to attend the same facility. It might also result in inferior care for FFP children, since parents whose choice of child care is severely limited for economic reasons may have to accept whatever care is offered. On the other hand, if the care provided for FFP children is more costly than private paid care, inhibiting the use of FFP

facilities by parents who pay for their children's care, resentment on the part of paying parents may jeoparize support for subsidized care.

There are limited data on day care centers from the National Day Care Study that shed some light on this issue. It appears that considerable separation of subsidized children (FFP) from non-subsidized children currently exists. An estimated 50% of all FFP children are cared for in facilities that serve only FFP children. Moreover, 35% of the FFP centers serve only FFP children. Generally, though, separation by race and income in centers is less pronounced in FFP care than non-FFP care. (We do not have data on this issue for day care homes.)

Each of the four center types, non-FFP profit, non-FFP non-profit, FFP profit, and FFP non-profit, possess distinct distributions of the economic and racial characteristics of the children they serve. Individual centers of each type tend to reflect the characteristics of their type, although there are centers of each type that are uncharacteristic of their type. For example, profit FFP centers as a type serve relatively few Black or poor children and have a relatively high proportion of enrollment from higher income families, yet two percent of the centers of this type serve exclusively poor children and four percent serve exclusively Black children. FFP non-profit centers as a type have an enrollment that is predominantly poor (60%) and predominantly non-Anglo. At the same time, nine percent of these centers serve exclusively Anglo children and two percent serve no poor children.

The average parent fee of $25 per week per child in non-FFP centers makes it unlikely that many families earning under $6,000 per year will purchase care at the full fee in non-FFP centers. Without public subsidy relatively few poor children would have the opportunity for center care. However, present FFP policies may tend to promote more separation of FFP and non-FFP children than alternative policies might.

While there are exceptions, it is clear that on the whole FFP and non-FFP centers serve different populations. The cost of meeting the FIDCR, policies in certain jurisdictions explicitly excluding title XX facilities from serving non-FFP children, and the exclusion of profit centers from the Department of Agriculture Child Care Food Service program and CETA all will tend to promote separation of poor, moderate and higher income children. Since income and race are somewhat related this means separation by income class will result in some separation by race.

It would appear that the changes proposed in these regulations, for the most part, will have little effect on reducing separation or increasing integration. However, these proposed regulations will produce much less separation by FFP status, income, and race than the 1968 FIDCR would have, since the 1968 FIDCR would have reinforced tendencies for a "two-tier" day care market.

6. Relationship to Other Federal Laws and Programs

These day care regulations do not exist in a legal vacuum. Other laws and programs may have a major effect on day care. This section provides several examples. Some of these may later be analyzed extensively.

a. Age Discrimination — The new Age Discrimination Act will take effect in 1979. Because these proposed regulations create certain age distinctions (e.g., grouping), and States will make budgetary and policy choices concerning day care versus other services, the legality of some choices may be in doubt. It is unlikely that the operation of day care programs consistent with these regulations, or related reasonable choices on day care spending or policy, would violate the Age Discrimination Act; the Department will deal with these questions in its HEW-specific Age Discrimination regulations.

b. Discrimination Against the Handicapped — The requirements of section 504 of the Rehabilitation Act are unlikely to pose significant problems for many centers. Almost all providers have fewer than 15 employees and are therefore exempted from the need for expensive structural modifications. A very small proportion of children are so severely handicapped that they cannot participate in a normal day care program of activities, and a child who cannot be admitted without great disruption of provider operations need not be admitted (most day care operations are not subject to the requirements for individualized instruction and all necessary services imposed on educational institutions by P.L. 94-142).

c. Department of Agriculture Child Food Programs — As discussed in the Nutrition section, the USDA programs as currently structured will prevent a substantial proportion of providers from participation (e.g., for-profit centers, unaffiliated family care). HEW plans to participate in forthcoming USDA proposals to revise its policies.

d. Minimum Wage Laws — These laws can have a major effect on the cost of care (and caregiver income), since most caregivers are paid at or very near (and, it is rumored, in many cases below) the Federal minimum wage. Family day care providers are typically not protected by these laws, since they are reimbursed on a per-child rather than hourly wage basis. The minimum wage will increase from $2.90 per hour to $3.10 per hour in January, 1980. This change may have a substantial effect on the cost of day care in future years.

e. Day Care Purchased Directly by AFDC Recipients — This segment of the day care market is unregulated. The Department believes that it would be illegal under current law to require private purchasers to meet Federal standards. This creates an anomaly in that care for an AFDC child may differ greatly depending on the means of payment. However, the alternative could imply that Federal regulations could intervene directly in purchasing decisions by not only AFDC recipients, and not only for day care, but also in any spending by any retiree or other person receiving cash payments from Federal sources.

VI METHODOLOGY

1. Approach

This analysis follows the standards enunciated for Regulatory Analysis by the Department (see Federal Register, Vol. 43, No. 104, May 30, 1978). It attempts to analyze major alternatives in terms of direct and indirect consequences, on a comparative basis, to provide a clear basis for choice among alternatives. It covers all "economic" consequences, including consumer preferences, and seeks to show qualitative as well as quantitative decisions of each alternative.

In practice, the principal focus of the analysis of each set of alternatives is on two major dimensions: the cost of providing care (including unreimbursed costs), and developmental, safety, and related benefits to children in care. Other effects, such as possible supply restrictions, are generally covered in subsections labelled "Other Significant Effects".

The analysis covers each major provision of the proposed regulations separately, and generally deals with alternatives in the context of each provision. Because the Department presents, for most provisions, more than one alternative, the analysis largely parallels the structure of the proposals. However, in some cases alternatives are presented in the analysis which are not specifically presented in the proposals, as required by Executive Order 12044. The analysis does not cover all conceivable alternatives but attempts to discuss the major possibilities. Purely hypothetical alternatives which appear to be obviously infeasible (e.g., use of performance standards for child development in lieu of grouping requirements) are not identified or analyzed.

Although quantification of both costs and benefits was explored, no quantitative estimates of benefits are available for any aspect of the proposed regulations. Many quantitative cost estimates are made, though with varying degrees of precision. In an attempt to provide a frame of reference for considering the relative effects of the regulations' components and alternatives, a budgetary framework was used for both development and presentation of cost estimates. To the considerable extent that costs are represented in provider budgets, this enabled use of a "natural" unit of analysis, child-years of service, and representation of costs on a per child-year basis. This approach also helped in reaching cost estimates, since aggregate as well as unit cost estimates, and estimates of service on a child-year basis, even from different sources, could be checked for consistency through accounting identities (child-years X unit cost of a service = total cost of the service; total costs of each service sum to total budget; total funds from each source sum to total budget; etc.) This approach was particularly appropriate because these proposed regulations affect every aspect of covered day care.

For benefits, the lack of even intermediate or partial measures (e.g., measures of child health status, of numbers of parents enabled to work, of child achievement), let alone supply and demand data sufficient to calculate ultimate benefit measures such as "consumer surplus", prevented any serious attempt at quantification. This problem is also present for some types of costs, such as employment opportunities denied potential caregivers through State restrictions of one kind or another. Of course, many aspects of the proposal are shown to be cost-effective—the problem is simply lack of actual measures.

The analysis does not use day care purposes and objectives as the explicit basis for presentation of either costs or benefits. Although this approach to formulation of both requirements and analysis is inherently attractive and desirable, day care does not, in fact, have clear and unambiguous, discrete, or agreed societal objectives. Child protection is not identical to child development, yet the same activity (e.g., caregiver training) can contribute to both. More fundamentally, day care provides benefits simultaneously to parents as workers (enabling work), to parents as parents (child happiness, safety, and development), to parents as private persons (relief from the "chore" of parenting), to children (happiness, safety, and development), to caregivers (jobs, income, and the pleasures of working with children), to taxpayers as taxpayers (reduction in welfare payments), to taxpayers as concerned citizens (child happiness, safety, and development), and so on. Because all of the relevant parties have an interest in child happiness safety, and development, however, the analysis focuses primarily on that set of interrelated concerns.

General problems of both predictions and basis of comparison arise in analysis of this kind (whether labelled "systematic", "policy", "cost-effectiveness", or "cost-benefit"). The essence of the analytic problem is to predict the future effects of one course of action as compared to those of another. Not only are the likely consequences (both benefits and costs) uncertain, but also determining the proper basis of comparison can require complex judgments. Unlike many other regulations, in this case the Department's proposed regulations do not appear in a vacuum, where it could reasonable be assumed that absent Federal intervention the observed (future) reality would be quite different. Instead, the

regulations will modify previous regulations, and both regulations mandate practices which would mostly occur in the complete absence of government regulation. Moreover, in the absence of Federal regulation, States would often regulate. Finally, a major difficulty with the previous regulation was that its ambiguity made it not only unenforceable, but also virtually impossible to appraise in quantitative terms.

Consequently, incremental (future) cost and benefits could have been calculated in a number of ways, with incremental effects of each proposed alternative varying with assumptions about the 1968 FIDCR. While the various bases of comparison vary as to plausability, none appear totally inappropiate. In the event, we chose two cases of comparison in order to display, as fairly possible, the essential decision choices and consequences facing the Department. The costs (and benefits) of a fully enforced and rigidly interpreted 1968 FIDCR provided a natural benchmark against which to judge fully inforced new regulations. (Presented this way, the proposals reduce cost.) Another equally natural benchmark is current practice, compared also to fully enforced new regulations. We might have presented a comparison assuming (realistically) that perfect enforcement of any regulation is impossible; the difficulties with this approach (which could cost less than current practice even under the high options) are that one of the major purposes of the proposals is to create an enforceable set of standards, the Department fully intends to enforce them, and any estimating approach to shortfall would be purely arbitrary.

2. Data Sources

The particular sources of data used for the analysis are myriad. The most important are:

- The Appropriateness of The Federal Interagency Day Care Requirements (FIDCR): Report of Findings and Recommendations. U.S. Department of Health, Education, and Welfare, Office of Assistant Secretary for Planning and Evaluation, 1978. (Referred to in text as Appropriateness Report.)

- Abt Associates, Inc. National Day Care Study (5 volumes). Prepared for the U.S. Department of Health, Education, and Welfare; Office of Human Development Services; Administration for Children, Youth, and Families; under Contract No. HEW-105-74-1100. Cambridge: Abt Associates, Inc.; 1979. (Referred to in text as NDCS.)

- American Public Welfare Association. Title XX FIDCR Impact Study. Washington, D. C.: American Public Welfare Association, 1977. (Referred to in text as REAP.)

- Westat, Inc. National Day Care Home Study, Phase I Report, Analysis of Data from the National Profile, 1977. Prepared for the U.S. Department of Health, Education, and Welfare; Administration for Children, Youth, and Families, under Contract No. HEW-105-76-1123. Pat Hawkins, project officer. Rockville, Md.: Westat, Inc.: unpublished.

- Lawrence Johnson Associates. Comparative Licensing Study. Prepared for the Adminstration for Children, Youth, and Families; U.S. Department of Health, Education, and Welfare. To be published.

In addition to "hard" data sources as such, the analysis benefited from the results of the accumulated experience, directly and indirectly, of hundreds of persons and organizations too numerous to cite. Much helpful advice on the approach and coverage of this analysis was received from Gwen Morgan, Sophia Harris, Mary Rowe, and other day care experts, through the Center for Systems and Program Development. However, all specific conclusions are the responsibility of the HEW staff who prepared the analysis.

3. Limitations

The analysis deals with the proposed regulations, and is not in any way intended to be an overall analysis of national day care policy issues.

The analysis is further limited by the paucity of any predictive, behavioral data on many of the key questions involved, as discussed throughout the text.

It cannot be overemphasized that the various estimates given, even though expressed in precise numbers, are intended to express ranges and relative magnitudes. Current State reporting under the title XX program is (deliberately) cursory. No one knows the dollar amount spent on regulated day care, the number of children, or any other key "fact" within a range of plus or minus 10%. A 10% change in total number of children affected or cost per child served could lead to an $80 million difference for centers or $40 million difference for family day care, in base cost alone. Also the estimates of cost reductions from changes in grouping requirements are derived from a simulation model which is not only unverified, but also may be highly sensitive to seemingly small changes in specifications of both exogenous and endogenous variables.

The data used generally came from 1976, 1977, or 1978. For the most part they have not been adjusted for inflation, which has averaged over 6% annually in recent years. The estimates for FY 1980-1982 are also expressed in the same "current" dollars, rather than in dollars adjusted for inflation.

In the final version of the analysis we expect to deal more systematically with three sets of differences which are obscured by use of averages and totals. First, there are considerable differences between profit and non-profit centers in current patterns of services. The proposed regulations will affect these two categories differently, tending to increase costs more (or decrease them less) for profit-making centers. Second, there are considerable inter-state differences in current costs, and the proposed regulations will put more upward pressure (or produce fewer savings) for centers in states with lower current costs. Third, the proposals' overall effects mask, in part, greater but sometimes offsetting effects on centers which deviate sharply from the mean (see, for example, the discussions of Nutrition and Grouping costs). Thus, even though the overall effect of the high options proposals is only about a 2% increase over current provider cost ($29 million as compared to $1.3 billion, as shown in table 2), many individual providers will face cost increases or decreases of 10% or more.